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ECONOMIC AFFAIRS

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CONTENTS

PEOPLE'S REPUBLIC OF CHINA

ECONOMIC PLANNING

- Investment Mistakes Linked to Capital Construction Results
(Shen Yiqing; SHIJIE JINGJI DAOBAO, 21 Mar 83) 1

FINANCE AND BANKING

- Editorial Calls for Proper Use of Renewal Funds
(JINGJI RIBAO, 17 Mar 83) 3

INDUSTRY

- Days Are Numbered for China's Biggest Steam Engine Factory
(Richard Pascoe; THE NATION REVIEW, 31 Mar 83) 5

CONSTRUCTION

- Dispute Over Profit Responsibility in Liaoning Aired
(Cai Wantian, et al.; JIANZHU JINGJI YANJIU, No 1, 1983) 7
- 'Capital Construction Enterprises' Sometimes Misnamed
(Cheng Yinghuang, Liu Jiu; JIANZHU JINGJI YANJIU, No 1, 1983) 15
- Profits of Building Construction Enterprises Studied
(Hu Peican; JIANZHU JINGJI YANJIU, No 1, 1983) 17
- Economic Responsibility System in Liaoning Reviewed
(Xi Jianwei, Bao Yan; JIANZHU JINGJI YANJIU, No 1, 1983) 21

DOMESTIC TRADE

Solutions to Problems Concerning Commercial Work Discussed (Liu Yi; CAIMAO JINGJI, 11 Feb 83)	31
Shanghai Issues Regulations on Individual Economy (JIEFANG RIBAO, 24 Mar 83)	38
Increased Turnover From Retail Trade in Fujian Reported (FUJIAN RIBAO, 20 Mar 83)	40
Development of Retail, Service Trades Urged (JINGJI RIBAO, 21 Mar 83)	42
Individual Economy Develops in Rural, Urban Areas (Xie Zhenjiang; JINGJI RIBAO, 28 Mar 83)	45

FOREIGN TRADE

Gu Gengyu Advocates Attractive Benefits to Foreign Investors (Yang Xiaolin; SHIJIE JINGJI DAOBAO, 14 Mar 83)	47
Importance of Import Strategy Discussed (Shen Liren; CAIMAO JINGJI, 11 Feb 83)	50
Proper Utilization of Foreign Funds Discussed (Zhang Ruiyao; FUJIAN RIBAO, 25 Mar 83)	59
Some Views on Solving Current Foreign Trade Losses (Zhou Jianping, Zhao Kaitai; CAIMAO JINGJI, 11 Jan 83) ..	62

ECONOMIC PLANNING

INVESTMENT MISTAKES LINKED TO CAPITAL CONSTRUCTION RESULTS

Shanghai SHIJIE JINGJI DAOBAO in Chinese 21 Mar 83 p 1

[Article by Shen Yiqing [3476 0076 7230] of the Anhui Provincial Oil Company in the Reader's Column: "The Scope of Capital Construction Must be Controlled--Capital Construction Policymakers Should Also Implement a Responsibility System so as to Know Who Draws Circles and Who Takes Economic and Legal Responsibility in Case of Major Mistakes"]

[Text] The main reason for the poor result of investment in capital construction is mistakes in investment decisions. One of the main reasons for such mistakes is that the responsibility system has not been implemented among policymakers. Under the division of labor, planning departments are in charge of investment distribution, departments responsible for investment are in charge of investment utilization, construction banks are in charge of financial supervision of capital construction projects and statistics departments are in charge of calculating the amount of investment in completed projects and estimating increased production capacity. But there is no department in charge of examining the results of investment after projects have been completed. Because the examination results of projects is ignored, policymakers have rights to make decisions about projects but are not responsible for their results. At the same time, the policymakers cannot draw lessons through the examination to improve their future decision-making work. To change this situation, I suggest:

First, since project decision-making is the first link in capital construction work, we must give wide publicity to the importance of project decision-making and the necessity of implementing the responsibility system in project decision-making work.

Second, the current tendency is to hold construction banks responsible for supervising projects. When a project comes to the stage of appropriation, most work in its initial stage has already been done. Therefore, this stipulation cannot eliminate the losses caused by the mistakes in project decision-making. We should ensure the soundness of project decision, give certain responsibility to people who have power to make decisions on projects and ask them, after the projects for which they are responsible are completed, to submit reports on the examination of the situation of economic results.

Third, examination reports of all related decision-making departments should be summed up by planning commissions. When government organs at all levels make reports on the situation in budget implementation at people's congresses at their level, they should also make examination reports on the results of the investment in construction projects which have been completed and put into operation during the present session. We can now begin examining large and medium-sized projects.

Fourth, we should formulate "Project Decision Law" to protect the seriousness of the feasibility study with the legal system and ensure that it will play a dominant role in the course of project decision-making and not just serve as proof after the decision has been made. The "Project Decision Law" should explicitly stipulate that whoever undermines the seriousness of the feasibility study and causes a great deal of waste by committing mistakes in decision-making must be subjected to legal and economical sanctions. We must change the attitude of ignoring the practice of wasting state construction funds. We also should not make up our mistakes in project decision-making by saying that we have to pay for our lessons.

12302

CSO: 4006/418

FINANCE AND BANKING

EDITORIAL CALLS FOR PROPER USE OF RENEWAL FUNDS

Beijing JINGJI RIBAO in Chinese 17 Mar 83 p 1

[Article: "Renewal and Transformation Funds Must Be Used in Technical Transformation"]

[Text] One of the priorities of our present economic construction is technical transformation of the existing enterprises. Currently, each year one-third of our country's entire fixed assets investment is used in renewal and transformation. If every area and every department makes rational use of renewal funds, with specific funds for specific uses, the pace of our technical transformation can speed up, and thus will enable us to realize the strategic objectives put forward at the 12th Party Congress.

But in recent years, in some areas and departments, there was confusion in the management of the renewal funds, and use of them was scattered. Some units, in the name of exploiting potential, innovation and reform, have been carrying out, on a large scale, capital construction. According to data of the State Statistical Bureau, during the past 3 years, the proportion of construction and installation in the investments in renewal and transformation has been growing every year: it was 54 percent in 1980, 58 percent in 1981, and by the first half of 1982 it was 64 percent. In 1981, in one district of a province, 85 percent of its renewal funds was used in capital construction projects.

This kind of emphasis on "extension" and neglect of "intension" has undoubtedly crowded out funds for the use of advanced technology and transformation of old equipment. The technical transformation has been merely in name but not in reality. The enterprises are still going in circles around old technical process, old technology, old equipment and old materials. This has also lengthened the front line of capital construction, intensified the tight situation in transportation and energy, and caused waste both in funds and raw materials.

In order to turn round this state of affairs, every area and department must, first, attach importance, in thinking, to technical transformation, transfer their main energy to the track of technical progress and expanded reproduction, giving priority to intension. Secondly, they must formulate a unified technical policy, draw up area plans, key city plans and priority

enterprises' reform plans, so the technical transformation can be launched with priorities and step by step, avoiding rushing into mass action, or each doing things at will with repetition and waste. On this basis, each renewal fund is to be uniformly planned, rationally used, and strictly forbidden to be used for other purposes. Departments of all levels of planning, finance, banking, statistics, etc. must conscientiously carry out their supervision and inspection duties and firmly stop those units that are launching and expanding new projects under the banner of technical transformation.

12200

CSO: 4006/407

INDUSTRY

DAYS ARE NUMBERED FOR CHINA'S BIGGEST STEAM ENGINE FACTORY

Bangkok THE NATION REVIEW in English 31 Mar 83 p 29

[Article by Richard Pascoe]

[Text] Datong, China--The biggest steam engine factory in the world is still making more than 200 huge black locomotives a year for China's over-stretched railway system but its days are probably numbered.

Production at the Datong Works, the last steam engine makers in China, reached a record 320 locomotives in 1980.

Its 8,000 workers made 230 engines last year, almost all of them the 3,300 horsepower "Qianjin" (Progress) class that make China's railways a paradise for foreign train spotters.

Factory officials said cuts in output had been forced by the government's industrial retrenchment programme, which took investment away from heavy industry, and by competition from diesel and electric traction.

Although Datong's puffing black dragons would still be made for the next couple of years, they said, the day would eventually come when the factory would have to close or start making something else.

"In the long run steam engines will be got rid of. In Western countries you have already scrapped them," one official said.

The big advantage of steam engines is that they burn coal, which is available in abundance in China.

Datong was chosen as the site for the locomotive works in 1959 because it is in Shanxi Province, China's main coal-producing region west of Peking.

Shanxi provides both fuel and demand for steam engines, since coal from the province must be transported by rail throughout the country on a still expanding rail network.

Massive coal trains hundreds of metres (yards) long can be seen lumbering up the gradients around Datong, often with one loco pulling in front and one pushing at the back.

Officials said that as well as reducing the demand for oil, in short supply in China, steam engines were also cheaper to build cost less to maintain and were generally more robust than diesel locomotives.

They are mainly used for hauling freight trains but can also been seen pulling passenger trains in some parts of China, including the Fujian Province in the southeast. [as published]

The Datong factory officials claim the Progress class locomotives are of Chinese origin but workers say it is based on old Russian and Japanese technology.

At any one time a dozen of the engines can be seen in the sheds behind the factory undergoing steam tests or in various stages of painting.

The factory is proud to have exported one engine a few years ago to a company in the United States but officials were unable to say who bought it.

They said that although there were still steam locomotive works in the Soviet Union and South Africa, there was no factory in the world making as many engines as Datong.

In the West, the only demand for steam engines was for surface work at coal mines, the officials said.

China's other locomotive works in the industrial northeast has already switched to making diesel or electric engines.

To try to modernize its output, Datong experimented with a gas-turbine locomotive 15 years ago but the project did not prove viable.

The problems of steam are considerable, though less so in a country where labour is cheap.

It can take 10 hours to stoke up a Progress locomotive from cold to full steam. In China, each engine has a crew of three--a driver, a deputy driver and a fireman.

The factory's more modern versions have an automatic coal stoking system from the tender.

Gao Huanting, director of the finishing shop, says a well-maintained Progress loco can pull a train weighing over 30,000 tonnes, although it might need another engine to help it up a gradient.

"They still have a future," he said. "We have plenty of coal. I think we'll still have to make them for a few years yet."--Reuter

CSO: 4013/194

CONSTRUCTION

DISPUTE OVER PROFIT RESPONSIBILITY IN LIAONING AIRED

Beijing JIANZHU JINGJI YANJIU in Chinese No 1, 1983 pp 22-25

[Article by Cai Wantian [5591 8001 3944], Chen Zengrui [7115 1073 3843] and Liu Guangpei [0491 1639 3099] of the Construction Bank Liaoning Branch: "Views on Several Problems in the System of Responsibility for Profits in Liaoning's Construction Trade"]

[Text] Guided by the spirit of the 3d Plenary Session of the 11th party Central Committee, and after several years of reorganization, Liaoning's construction business has achieved outstanding success in popularizing the system of economic responsibility, improving business management, and fulfilling the various economic targets. Compared with 1979, the actual volume of construction and installation work in 1980 increased by 13.8 percent, output value per worker or staff member rose by 13.5 percent, and the production costs decreased by 49 percent. Even though business was operating under capacity in the first quarter of 1981, the main targets completed still approached the level of the previous year. This is what we and the comrades in the construction trade agree on. With regard to the way to handle the relationship between the interests of the state and the enterprises in the system of economic responsibility, however, we have different views. In other words, we have some differences of opinion with some of the comrades in Liaoning's construction business regarding the problem of the portion of profits to be handed over to the state under the profit responsibility system. We feel that since this system began in 1980, the base profit quota has been too low, with the result that the enterprises' share has been too large and the state's share has been too small. This way of sharing is incompatible with the spirit of the state's stipulations concerning the distribution of interests among the state, the enterprises, and the individuals, and it should be revised. However, some comrades in the construction business believe that the base quota is not low and is consistent with the interests of the three parties. They hold that the base quota in the responsibility system in Liaoning is based on previous records and is consistent with Document No 185, which states that the base quota is to remain unchanged for 3 years. Revision of this target, in their opinion, would affect the continuity and stability of this policy and dampen the enthusiasm of the workers and staff members for production. They also contend that a larger share for the enterprise means more income for the state, and that less direct profit delivery to the state does not mean greater gains for the enterprise or less income for the state.

Debate on this question has lasted more than 2 years, but no agreement has yet been reached. On behalf of the comrades in the construction business, Jiang Rui [1203 3843] and the other comrades have expressed their views publicly in issues Nos 3 and 5 of JIANZHU for 1982. To clarify the situation for further study, we will present the main points of difference in our views.

Is the base quota in the system of responsibility too low? This is the focus of the dispute.

The system of responsibility for profits among the state-run construction enterprises in Liaoning began in 1980. The quota was set at 4 million yuan, and the above-quota portion was to be entirely retained by the enterprise. This arrangement was supposed to remain unchanged for 3 years. This quota was based neither on the records of previous years nor on the new state rules and regulations at the time the system of responsibility was adopted. At that time, the state ruled that labor insurance expenses had to be paid by the construction units instead of being paid as extraneous business expenditures. This change added a great deal to the amount of profit. The quota set at that time was equivalent to only 14 percent of the actual profit in 1979 and less than the amount of increased profit resulting from the construction units' payment for labor insurance. Thus, after the implementation of the system, the amount of profit handed over to the state increased to 5.8 million yuan, or 9.5 percent of the total profit realized. This shows that the base quota was already low at the very beginning and became even lower after implementation. This is obviously unreasonable. We say that Liaoning's base quota is low because it was 71 percent below the amount based on the 5:5 ratio of profit sharing set in Document No 185, which was jointly issued by the State Capital Construction Commission and the other departments. The difference is also very striking when compared with the profits turned over by fraternal provinces and municipalities. According to the statistics of an investigative conference convened by the State Building Construction Bureau and attended by 13 provinces and municipalities, the proportions of profit turned in to the state by the building construction enterprises in 12 provinces and municipalities compared to the total profit in 1980 were as follows: Beijing, 34.57 percent; Shanghai, 42.2 percent; Tianjin, 33.49 percent; Heilongjiang, 28.14 percent; Shandong, 35.2 percent; Jiangsu, 34.8 percent; Henan, 30.36 percent; Zhejiang, 38.28 percent; Fujian, 27.2 percent; Guangdong, 25.66 percent; Xinjiang, 24.7 percent; and Liaoning, 9.5 percent. The average was 30.34 percent, and Liaoning's was the lowest--only 31.3 percent of the average. How then can it be claimed that the base quota is not low? Disregarding these objective facts, some comrades still insisted that Liaoning's base quota embodied the interests of all three parties. This is really hard to understand. Because of this disagreement, the revision of 1981 targets met with very strong resistance, and it was not until after several months of debate that it was increased to 10 million yuan. The quota was still very low after the revision, because in 1981 the profit handed over to the state amounted to only 17 percent of the total profit--far less than the 15 million yuan which would have been realized from 5:5 profit sharing, and also below the average level of the 12 provinces and municipalities in 1980.

It was even more difficult to determine the quota for 1982. In view of the fact that the profit level of Liaoning's construction business ranked second in the country and the enterprises' retained profits continued to increase a great deal for 2 consecutive years, the provincial Construction Bank and the finance department considered a drastic revision of the irrational quota for 1982, in order that a greater contribution could be made to the state. No agreement could be reached, however, even after a study lasting more than 7 months. Failure to determine the quota directly affected the implementation of the system of economic responsibility among the enterprises and the normal progress of financial work.

Some comrades in the construction business in Liaoning have advanced several reasons to justify their disagreement over the quota revision.

In an article, they pointed out that the target in the responsibility system was based on past records and was consistent with the stipulations in Document No 185. We are of the opinion that the actual situation was exactly the reverse. Whether this target is rational or not should be studied on the basis of the state's current rules and regulations and on the actual level attained by the construction trade throughout the country. If past records are to be used as the basis, then, as already mentioned, the target also was very low in light of the 1979 profit level, and quite different from what the article said: "Based on the final figure for total profits, the portion handed over to the state was obviously small." In fact, the target in the system of responsibility has been low and far below past records from the very beginning. We maintain that the system of responsibility for profits in Liaoning has been inconsistent with the stipulations in Document No 185 from the very beginning. First, the profit quota is far below the level of profit sharing at a 5:5 ratio. Second, as stipulated in Document No 185 and approved by the provincial government, those units practicing the system of responsibility for profits can use their original method, which was the method of profit sharing at a 5:5 ratio before Document 185 was issued in Liaoning. Since these units should have continued to use the 5:5 profit-sharing method, the adoption of a new method is contrary to the spirit of Document 185.

The article by the several comrades in the construction business pointed out that the stability and continuity of the policy should be maintained and that, according to the stipulations, the quota should remain unchanged for 3 years. For this reason, they did not agree to its revision. We also agree that a rational, or basically rational, quota should not be changed for trivial causes, and that it is certainly correct to maintain the stability and continuity of the policy. However, Liaoning's profit quota is not simply irrational, but very irrational, and it must be revised in accordance with the relevant state regulations. In 1981, Document No 166 of the State Council pointed out: "Base quotas that have been set too low should be appropriately readjusted by the departments in charge or by the finance departments at the same level." Again in 1982, Document No 72 of the State Council pointed out: "The highly irrational system of responsibility for profits and losses set up by localities, which has caused a decrease in government revenues, should be appropriately readjusted in

accordance with the State Council's Document No 166 (1981) so as to ensure that in the distribution of increased or above-quota profits, the state's share will be larger than the enterprise's. Beginning in 1982, all irrational systems should be changed in accordance with the State Council's regulations." Therefore, in 1981 and 1982, our proposal to readjust the profit quotas in accordance with state regulations was fully justified and realistic.

The article by the same comrades stated: "It is impractical for construction enterprises to deliver their profits at the ratio of profit sharing being used by the industry and transportation enterprises, since it would be improper to use such a ratio as the basis for handling relationship between the interests of the three parties." This line of argument does not conform to facts. Actually, the state's ruling that construction enterprises should use the 5:5 profit-sharing method (whereby the quota profit, based on the actual profit of the previous year, is to be shared at a 5:5 ratio and the above-quota profit is to be shared at a 2:8 ratio, or 2 for the state and 8 for the enterprise, so that the latter's share will always be larger than the former's) was made with due consideration of the small profit margin for construction enterprises. With the addition of the retained profits (14 million yuan for the whole province) to which the enterprises are legally entitled, their share will be even larger. This method of sharing is by no means the same as for the industry and transportation enterprises. In the case of Liaoning Province, the state's share has been much less than what it should get from the 5:5 sharing method. Our suggestion for revising the target in the responsibility system was based on the 5:5 sharing method and on the actual level attained by the same trade throughout the country; we have never referred to the ratio being used for the industry and transportation enterprises. Therefore, the argument advanced by the comrades in the construction business is groundless.

In the same article, these comrades also presented some facts to show that a larger share of profits for the enterprises could also mean more revenues for the state. The article said: "The enterprises' use of retained funds for capital construction and for the purchase of treasury bonds actually means more revenue for the state." "We cannot say that less direct profit delivery will mean an unfair advantage to the enterprises and a loss to the state." It is certainly true that since the expansion of decisionmaking power for the enterprises, the state has no longer allocated funds to the construction trade, and in the past several years the enterprises have used their own funds to carry out large-scale production and residential housing projects, thus actually helping solve many longstanding problems. This is certainly beneficial to the enterprises, but it does not mean increased state revenue. In both 1980 and 1981, the retained profits for the state-owned building enterprises in the building construction sector increased by an average of 50.97 million yuan, or 63 percent, over 1979. Prior to 1979, the state invested approximately 10 million yuan in the enterprises annually. Thus the enterprises' retained profits was five times the state investment each year. How can it be claimed that increased profit retention means increased state revenue? The rate of profit retention by the

enterprises was 90.5 percent in 1980 and 83 percent in 1981. Thus, most of the profits were retained by the enterprises. How can it be claimed that the state suffers no loss? In their argument, the comrades in the construction business have overlooked the important principle for correctly handling the relationship between the interests of the state and the enterprises, or between the part and the whole. To arouse the enthusiasm of the enterprises and the broad masses of workers and staff members, the state has set the rates of profit retention for the enterprises so that they can build up their own funds. However, if the retained portion is excessive, it will certainly reduce state revenues and jeopardize overall interests. If the overall situation lacks vitality, the enterprises will lose their vigor. We must therefore have a unified will and a unified understanding, under the guidance of state policies.

The comrades in the construction trade also said in their article: "The provincial Construction Bank has proposed that every effort should be made to ensure more state revenues and that, according to the responsibility system, 30 million or at least 20 million yuan should be turned in to the state. This to a certain extent will dampen the enthusiasm of the construction trade for adopting the economic responsibility system." The provincial Construction Bank has not proposed responsibility for 30 million yuan; in 1982, however, it did propose a quota of 20 million yuan, knowing that such a quota was only up to the level of profits delivered by 12 provinces and municipalities in 1980. Then how can we dampen the enthusiasm for adopting the system of economic responsibility? Through this argument, the construction trade comrades hoped to show that greater profit retention would arouse greater enthusiasm. This is untenable in theory and untrue in practice. The profits handed over to the state by Shanghai's construction trade were the highest in the country, but this action by no means dampened the enthusiasm of the enterprises. Shanghai's construction trade ranked first in raising the profit level, in lowering production costs, and in increasing labor productivity. The construction business in our province, on the contrary, has the lowest profit level in the province, even though all profits were retained by the enterprises, with nothing left for the state at all. To fully arouse enthusiasm, we must carefully handle the relationship between the interests of the three parties, and the key to this task is to set a rational base quota and a rational rate of profit retention. If the base quota is set too high and the enterprises cannot gain any benefit despite all their efforts, the enthusiasm of these enterprises and their workers and staff members cannot be aroused, and the potential cannot be tapped. If the base quota is set too low, so that the enterprises can easily fulfill it without taking any risk, there will not be enough compelling force for the enterprises to improve their management and their economic results.

The construction trade comrades even said in the article: "When an enterprise has its own decisionmaking power in the use of funds for production and business operations, the Construction Bank should not needlessly interfere or be overly rigid in its control." If such is the actual situation, we should accept their opinion and improve our work. But is this actually so? After the expansion of their decisionmaking power and the large-scale

increase in their funds, how the enterprises use these funds rationally is a very important question. In the past several years, these funds have been at the disposal of the departments in charge and the enterprises, and as long as the state's financial system is not violated, the Construction Bank has never intervened in their operations. In 1981, we conducted an inspection of 20 enterprises to find out how they used their retained funds. The result showed that their orientation was basically correct. However, we also discovered that because of the abundance of funds on hand, many enterprises were extravagant in the purchase of equipment, resulting in serious stockpiling, loss, and waste. According to our inspection of 20 enterprises, 30 percent of the equipment purchased in 1980 and 1981 was unfit for use because of poor quality and had to be laid aside, and thus became a waste. As for excessive intervention, according to what we discovered from our analysis of the causes of loss and waste, the accusation from many enterprises was directed against the departments in charge. They complained that the departments in charge had arbitrarily forced them to accept poor-quality and high-priced equipment, and maintained that this was one of the main causes of loss and waste. Some enterprises said: "Expanded decisionmaking power is enjoyed only by the departments in charge, but not by the enterprises." Some enterprises have used their retained profits on housing projects and hardly any at all on productive construction. To reduce loss and waste and to improve the utilization of funds, we drafted "Views on Strengthening the Control of Special Funds" and proposed that it be issued jointly by the departments in charge of the enterprises and by us. Unfortunately, the departments in charge said that the bank controlled too much, and they would not agree to join in the issuance of this document. The allegation of excessive intervention from the bank might have had something to do with this incident. After the expansion of the enterprises' decisionmaking power, the finance departments and banks are charged by the state with the duty of strengthening their supervision over the use of funds. However, some comrades in the Construction Bank had some mistaken ideas. They thought that after the adoption of the profit responsibility system, the enterprises should deliver part of their profits to the state and the rest should be their own--in which case, whether the enterprises would indiscriminately put their expenses into production costs or spend their money lavishly made no difference. Thus they relaxed their financial supervision over the enterprises. Instead of excessive intervention and overly rigid control, we now have loose control and inadequate supervision on the part of the Construction Bank. We are of the opinion that such is the actual situation in Liaoning at present.

From the viewpoints presented, it can be seen that the Construction Bank's proposal for a readjustment of the profit quota can never be maligned as "looking at the large retained profits with jaundiced eyes" or "negating the orientation of economic responsibility at every level in Liaoning." We do not want to dwell on this point; however, we have different views on the handling of the relationship between the interests of the state and the enterprises and the forms of profit responsibility to be adopted, in view of the many defects discovered in the past couple of years.

Practice over the past 3 years has shown that the adoption of the profit responsibility system by the construction enterprises in Liaoning is disadvantageous to the correct handling of the relationship between the interests of the state and the enterprises, and is apt to encourage departmentalism. The system has the following defects:

1. Difficulty in determining the quota for the profit responsibility system. The setting of the quota usually has involved disputes and protracted bargaining and can hardly be achieved by seeking truth from facts. When the quota for 1981 was set, for example, the Construction Bank anticipated an annual profit of approximately 60 million yuan and a quota of not less than 20 million yuan. However, some comrades in the construction trade anticipated an annual loss of 2 million yuan and expected to make good this loss with part of the retained profits of the previous year, while the quota was to remain at 4 million yuan. Because of the widely divergent views, even repeated discussions failed to bring about any agreement. The task of setting the quota for 1982 was even more difficult. Some comrades in the construction business said plainly: "The purpose of our responsibility system is to retain more profits. It will be appreciated if the Construction Bank will lift a finger to help us." Problems arising from these divergent views have remained unsolved for a long time. Thus in the past several years, the setting of the responsibility quota has always been half a year behind schedule, and the quotas have all been very low. They not only have brought losses to the state, but also have failed to help the enterprises strengthen their economic accounting and fulfill their economic responsibility.

2. Difficulty in setting an advanced and rational base quota in the adoption of the profit responsibility system. Because of the frequent changes in production tasks for the construction enterprises and the instability of their income, it would be very difficult to set an advanced, rational quota at the beginning of the year and to correctly handle the relationship between the interests of the state and those of the enterprises. There are two causes for this difficulty: First, the instability of production tasks. If these tasks are reduced along with the income, the enterprises will not be able to make a profit and their enthusiasm cannot be aroused. On the other hand, if production tasks are increased, the state will suffer losses. Second, the frequent changes in the budgeted funds for capital construction and in the related prices and charges, and their direct effect on the enterprises' profit level. In 1980, for example, the state ruled that expenditures on labor insurance for the enterprises should be borne by the construction units (originally, these expenditures were included in the extra business expenditures), thus adding 5.24 million yuan to the profits of the enterprises; and the relevant department in the province set a new wholesale price for concrete components which increased the proceeds from sales by approximately 4 million yuan. The increase in profits resulting from these two changes more than trebled the quota of profits to be handed over to the state that year. These changes certainly made the quota even more irrational.

3. Increased contradictions among the departments in charge, on the one hand, and the Construction Bank and the finance departments on the other. The system of profit responsibility has to varying extents encouraged a small number of building enterprises [to adopt] various unhealthy tendencies, such as inflating the figures in their budgets and final accounts. This is disadvantageous to the enterprises in strengthening economic accounting.

4. The adverse effect on the enthusiasm of the collective building enterprises from excessive profit retention in the system of profit responsibility among the state-run building enterprises. There has been widespread dissatisfaction among the collective enterprises, because they earn their production funds through self-reliance or even borrowing and they have to pay an income tax of 55 percent out of their profits, while the production of state-run enterprises is financed by the state, and only a minor portion of their profit is turned over to the state. This seems irrational to them and dampens their enthusiasm for production.

To overcome the defects which have appeared in the profit responsibility system adopted by the building construction enterprises in Liaoning, to correctly handle the relationship between the interests of the state and the enterprises, and to bring into play the positive factors in various fields (including the finance departments, banks, and enterprises) on the basis of the characteristics of the construction enterprises, we still feel that the method of "sharing according to fixed proportions" should be more appropriate for the enterprises in turning their profits in to the state. This method has more advantages than disadvantages, is simple in its procedures, can guard against unnecessary disputes, and conforms to the characteristics of the construction business. If the tasks are insufficient and the profit is low, less profit will be turned in; if the tasks are many and the profits are high, more profit will be turned in. The profit to be turned in can be likened to a ship rising or falling along with the tide, and is suitable for the unsteady income in the construction business. Adoption of this method will benefit the state and the enterprises. Furthermore, it will help to arouse enthusiasm in various sectors (including the Construction Bank and the finance departments) and to strengthen management and economic accounting as well as the workers' nationalism, so that they will make greater contributions to the state by increasing output and income.

9411

CSO: 4006/350

CONSTRUCTION

'CAPITAL CONSTRUCTION ENTERPRISES' SOMETIMES MISNAMED

Beijing JIANZHU JINGJI YANJIU in Chinese No 1, 1983 p 47

[Article by Cheng Yinghuang [4453 2019 6949] and Liu Jiu [0491 2638]:
"Construction Enterprises Should Not Be Called 'Capital Construction
Enterprises'"]

[Text] In newspapers and documents, we usually find such terms as "capital construction enterprise" and "construction enterprise." For example, Article 18 of the "Provisional Rules and Regulations of the Congress of Workers and Staff Members of State-Run Industrial Enterprises" reads: "This article also applies in principle to communications and transportation, capital construction, state farms and forestry farms, water conservation facilities, and commercial and foreign trade enterprises and units."

As we understand it, enterprises are economic units that engage in production, trading, transportation, and service activities with independent accounting. They must produce certain types of material objects or provide certain labor service, continue to grow through the turnovers of funds, and make a profit upon balancing receipts and payments. Capital construction, on the other hand, refers to the increase in fixed assets among the various sectors of the national economy. Its activities are mainly as follows: First, construction and installation, meaning the construction of various buildings and structures and the installation of various types of machinery and equipment. All these jobs are to be entrusted to the construction and survey, design, and building units, and their completion is considered to be the product of the construction trade. Second, the purchase of equipment, such as the purchase of various types of machinery and equipment, production tools, instruments and meters, and so forth. These are the products of industrial enterprises. Third, other nonproductive work, such as the requisition of land and the training of personnel. If the enterprises engaging in the first two categories of production were all capital construction enterprises, then there would be neither construction trade nor industrial departments. Therefore, we can never call the enterprises that provide the products for capital construction by the name of capital construction enterprises. There are mainly four criteria for the classification of enterprises: the trade to which the productive activities belong; the use of the enterprises' products (or services); the raw and semifinished

materials used by the enterprises; and the character of the enterprises' production technology. Regardless of which criterion is being used, we can only form the concept of construction enterprises, and not capital construction enterprises. Capital construction units do not have their own workers or tools of production, nor do they have their own products. The principles and methods of control for productive activities as the central task do not apply here, since capital construction merely transforms into fixed assets the products which the capital construction units have purchased (or have entrusted others to process). Theirs are therefore not productive activities. The units responsible for the construction tasks stipulated in the state's capital construction plans are generally called capital construction units, not capital construction enterprises. These units are usually the preparatory construction departments, preparatory construction commands, or preparatory construction offices. They do not have to apply for business licenses and are not controlled by the industry and commerce administration departments. As soon as they are completed, investment projects become production enterprises or nonproduction units, and the original capital construction unit ceases to exist. From this, we can see that the process of capital construction is the process of economic activities in the implementation of investment projects, and not the activities of material production. "Capital construction enterprise" does not objectively exist.

9411

CSO: 4006/350

CONSTRUCTION

PROFITS OF BUILDING CONSTRUCTION ENTERPRISES STUDIED

Beijing JIANZHU JINGJI YANJIU in Chinese No 1, 1983 pp 31-32, 48

[Article by Hu Peican [5170 1014 3605] of the Finance Department of Gansu Provincial Building Construction Bureau: "A Preliminary Analysis of the Profits of Building Construction Enterprises"]

[Text] I. Profit Level of Building Construction Enterprises

Since the expansion of building construction enterprises' decisionmaking power in 1980, their economic results have gradually improved. The profit level for building enterprises in the building construction sector in 1981 was generally as follows:

Per capita profit (yuan)	Number of zones	Proportion to total (%)	Proportion of profits to total profit (%)
1,000-1,300	2 }	17.2 }	28.4
750-1,000	3 }		
600-750	3 }		
400-600	10 }	82.8 }	71.6
300-400	7 }		
Less than 300	4 }		
Total 509	29	100	100

The table shows that although the [average] per capita profit of building construction enterprises was 509 yuan, the proportion of zones at a level above 750 yuan was only 17.2 percent, and their profits amounted to 28.4 percent of the total profit. The remaining 82.8 percent of the zones had an average per capita profit of 430 yuan (including 94 yuan of legal profit). The profit level shown here includes profits from construction and installation as well as those from production and other business activities. The profits from production and other business activities are mostly higher than those from construction and installation. This analysis shows two points: First, if the building construction enterprises really rely on construction and installation as their source of profits, then, according to the current prices of construction products, their profits will be very

small--only a very small portion of the per capita profits of industrial departments. Second, the profit level in 82.8 percent of the zones for construction and installation is very low.

Furthermore, because of the mobile and scattered nature of their work, building construction enterprises have to bear a heavy burden in their base areas, where the outlay for schools for their children and other dependents, for farms, for hospitals and for other institutions is very heavy. Building construction enterprises are labor-intensive departments, in which the proportion of manual labor is high and the number of workers and staff members is large. Those [workers] from the 1950's are now entering retirement age, and the burden of labor insurance fees is heavy. Although the per capita profit of these workers was only 300-400 yuan, nearly 100 yuan had to be spent on extra operating expenses. Thus, in the majority of zones, the actual per capita profit level is even lower. The distribution of extra operating expenses per capita in 1981 was as follows:

<u>Per capita extra operating expenses (yuan)</u>	<u>Number of zones</u>	<u>Proportion to total (%)</u>	<u>Proportion of expenses to total outlay (%)</u>
10-20	3 }	29.6 }	14.3
20-40	5 }		
60-100	14 }	70.4 }	85.7
100-150	5 }		
Total 66	27	100	100

II. Level of Retained Profits of Building Construction Enterprises

After the building construction enterprises' decisionmaking power was expanded, and as a result of their implementation of Document No 185, their retained profits were increased to a certain extent, along with an improvement in their economic results. In 1981, the per capita retained profit in the building construction sector was 401 yuan, an alltime high. The retained profits are roughly analyzed as follows:

<u>Per capita retained profit (yuan)</u>	<u>Number of zones</u>	<u>Proportion to total (%)</u>	<u>Proportion of retained profit to total amount (%)</u>
700-800	2 }	17.2 }	25.4
550-700	3 }		
400-550	8 }	82.8 }	74.6
300-400	6 }		
200-300	6 }		
Less than 200	4 }		
Total 401	29	100	100

This table illustrates two points: First, in outward appearance, the proportion of retained profits for building construction enterprises seems

quite high, because according to the method of 5:5 or 2:8 sharing, it was the enterprises and not the state that obtained the major share. Even so, the actual per capita amount for building construction enterprises was only 401 yuan (including 100 yuan of legal profit retention). This shows that the prices of construction products are too low, but not that the proportion of retained profits for building construction enterprises is too high. Second, although the per capita retained profit for the whole sector was 401 yuan, only 17.2 percent of the zones received more than 550 yuan, while the remaining 82.8 percent of the zones got only 346 yuan.

III. Several Points of View

1. The Need To Maintain Price Stability for Construction Products

For a long time, no reasonable prices have been set for construction products, and building construction enterprises cannot be assured of a steady income. The scale of charges for construction and installation work, operating expenses, and other independent fees is subject to frequent change. If the level of production technology and business management were a little higher, profits a little larger, and production costs a little lower, the scale of charges would either be raised or lowered. Many zones are now working on these fee scales, and when they are enforced next year, prices will be reduced. If at the same time the proportion of retained profits for these enterprises is reduced, they will suffer double losses, and an excessive reduction of their economic benefits will dampen the enthusiasm of the enterprises and their workers and staff members. Therefore, I feel that before prices are thoroughly reformed throughout the country, we must study the current problems vis-a-vis the prices of construction products so that these prices will conform to the law of value as much as possible and maintain a certain stability when the products are exchanged with other products at equal value. While studying the question of profit retention, we must analyze and consider the special characteristics of the construction trade and current realities.

2. The Need To Preserve the Continuity of the Policy on Distribution of Economic Benefits

For a long time, building construction enterprises have obtained little state investment. The prices of their products are low, and their profit margin is small. Improvement in many aspects is overdue. In view of this, when the financial reform was carried out in 1978, the state decided to include the building construction trade among the first groups to have both enterprise funds and retained profits. In 1980, this trade was among the first to enjoy expanded decisionmaking power. Now, in an effort to attain the strategic objective, the state has to streamline and readjust the proportion of profit sharing for state-run enterprises in order to raise the necessary funds for key projects. This is entirely necessary. However, during the period of readjustment and restructuring, we must pay attention to the continuity of policies and the actual profit composition. If in a certain zone the charges for the use of circulating funds are to be paid out of profits, the enterprise funds are to be abolished, and the

sharing of profits--including the legal profits--is to be at a 5:5 ratio, all according to the new method, a comparison with the situation before the expansion of decisionmaking power in 1978 will be as follows:

Items	Before expansion of decision- making power	New method
1. Profit (legal profit not included)	1,370	1,370
2. Legal profit	0	480
3. Reimbursement for dependents' school fees	145	0
4. Reimbursement for labor insurance	355	0
5. Charges for use of circulating funds	0	120
Total profit	1,870	1,730
Enterprise funds	200	0
Retained profit (at 50% rate)	835	865
Enterprise's benefits	1,035	865

A comparison of the two methods shows that enterprise income is now 1.7 million yuan less than that prior to the expansion of decisionmaking power, even before the reduction in the prices of construction products--which will further reduce profits--is taken into account.

Furthermore, the actual figures for profit sharing should also be considered. Let us take the same zone, for example. In appearance, the profit turned in was 5.31 million yuan 2 years prior to the expansion of decision-making power and 5.71 million yuan 2 years after the expansion of decision-making power--an increase of only 0.4 million yuan, which is only 11 percent of the total profit. The state has only a very small portion of the total profit. In a comprehensive analysis, however, we can see that the state's allocation 2 years prior to the expansion of decisionmaking power was 18.05 million yuan. After the amount turned in by the enterprises is deducted, the state's net outlay was 12.74 million yuan. Then, 2 years after the expansion of decisionmaking power, the state's allocation dropped to 3.54 million yuan. If the amount turned in is taken into account, the state has a surplus of 2.17 million yuan. Thus the state receives 14.91 million yuan more after the expansion of decisionmaking power than it did previously.

3. The Need To Explore Reasonable Retained-Profit Levels for Different Regions and Product Mixes Within the Trade

Compared with the industrial departments, building construction is still a meager-profit trade. The department in charge should have due regard for the uneven distribution of benefits within this trade and conscientiously resolve the contradictions. Regional differences, as well as differences in product mix, extra operating expenses, and so forth, objectively exist in this trade, and it will be difficult to arouse the enthusiasm of the majority of zones, enterprises, and workers if a uniform method is arbitrarily used.

9411

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CONSTRUCTION

ECONOMIC RESPONSIBILITY SYSTEM IN LIAONING REVIEWED

Beijing JIANZHU JINGJI YANJIU in Chinese No 1, 1983 pp 26-30

[Article by Xi Jianwei [3305 1696 5898] and Bao Yan [0545 6056]: "System of Economic Responsibility in Liaoning's Construction Trade Reviewed and Discussed"]

[Text] Under the guidance of the spirit of the 3d Plenary Session of the 11th party Central Committee and the correct leadership of the higher authorities, and with the support of the relevant departments, the state-run building enterprises in Liaoning Province have eliminated egalitarianism, or "eating from the common pot." after learning from the experiences of the Sixth Construction Company of Beijing in developing all-perfect engineering. In light of the special features of their own trade, these enterprises are now gradually establishing a system of economic responsibility highlighted by "responsibility and development."

(I)

This type of economic responsibility system was first tried out by the Shenyang Municipal Building Construction Bureau in 1979, and popularized throughout the province in 1980. Its purpose is to improve economic results and further develop all-perfect engineering. Its concrete features include the following:

1. The enterprises' service to the state: To turn in their profits, to set various economic and technical targets, and to determine a wage coefficient for every 100 yuan's volume of work.
2. The building enterprises' service to the construction units: To undertake work in the form of contracts, including their responsibility for the construction period, the quality of engineering, the consumption of materials, and engineering costs. In undertaking residential housing projects, the contracts should include the cost per square meter.
3. System of economic responsibility at every level within the trade: The bureau will be responsible for the companies; the companies will be responsible for enforcing the eight economic and technical targets and various expenditure quotas among the work zones; and the work zones will hold the

work teams or work units directly responsible for expenditures in accordance with the six criteria for all-perfect engineering performance. The work teams and work units will also enforce the system of responsibility for work and materials in contracted amounts among the work shifts or work groups. The system of responsibility for tapping resources and curtailing expenses is also adopted for the subsidiary and logistic departments in production.

External responsibility is a factor promoting internal responsibility, while internal responsibility is the foundation protecting external responsibility. Responsibility is the means; development is the end. There should be a combination of responsibility and development, with the former promoting the latter.

Economic responsibility is to be fulfilled in the form of contracts. Internally, it is subject to economic regulations; externally, it is protected by law.

Contracting carries with it rewards and punishments for meritable and poor performance, respectively. The enterprises have to fulfill their profit quotas for the state. If they make more profit, they will retain more. On the other hand, if they cannot fulfill their quotas, they will have to make up the quota with their own funds instead of appropriating any of the enterprise funds. There will be rewards and punishments for the building enterprises and construction units for completing projects ahead of or behind schedule, and for the good or poor quality of their work. Within the trade, the companies expect the work zones to complete their tasks and to share the above-quota profits, the cadres to lower the production cost and to be rewarded by sharing the savings, the workers to give all-perfect and above-quota performance and to be rewarded by piecework wages or in some other way, and the subsidiary and logistic departments in production to make their contributions and be duly rewarded.

All rewards or above-quota wages should be based on the quality of work and should serve as an encouragement for all-perfect engineering work. Responsibility, rights, and interests should be closely combined.

(II)

Practice over the past 3 years and more has proved that all enterprises implementing the system of economic responsibility well have shown great improvement in their production and management, as can be seen from the improved quality of products, shorter construction periods, lower production costs, and comprehensive economic results. The merits of this system are as follows:

1. Encouraging the Enterprises To Fulfill Their Economic Responsibility to the State

The core of the entire economic responsibility system is the enterprises' economic responsibility to the state. After the adoption of the economic

responsibility system, the enterprises' responsibility, rights, and interests are well defined; the former situation, in which good or bad management made no difference, has been changed. [The system] helps to strengthen business management, to tap internal resources, to improve economic results, and to guarantee state revenues and the fulfillment of various economic and technical targets. In 1980 and 1981, the average annual profit was 59,752,000 yuan, a 1.12-fold increase over 1979. The state's average annual outlay of 3.17 million yuan on this account in previous years was changed to an income of 5.8 million yuan in 1980 and 10.25 million yuan in 1981. In 1982, the enterprises undertook to hand over to the state 18 million yuan in profits. The profits progressively increased by a wide margin each year. All economic and technical targets assigned by the state were overfulfilled. In 1980, the volume of completed work increased by 18.8 percent, the output value per worker and staff member increased by 14 percent, and the area of completed work increased by 4.1 percent over 1979. In early 1981, when work assignments dropped by 32.3 percent, all the enterprises made efforts to look for new sources of work, and the result of their performance was close to that of 1980. From January to October 1982, both the output value per worker or staff member and the volume of work were 9 percent over 1981. The per capita annual profit rose from 222 yuan in 1979 to 456 yuan in 1980 and 468 yuan in 1981. Engineering quality also improved steadily, and the average proportion of fine-quality products was raised by 6.5 percent over 1979. The proportion of wages in every 100 yuan's volume of work decreased by 0.51 yuan below the 1979 [figure].

2. Arousing the Enthusiasm of Both Contracting Parties and Reducing Construction Periods

In the course of practicing the system of economic responsibility, the building enterprises in Liaoning have completely restored the contract system in all aspects. In the contracts for housing projects, both parties have been quite clear about their own responsibility for construction costs per square meter and for the supply of materials, and they have been able to concentrate their energy on their own jobs, thus promoting cooperation in improving the quality of work and reducing the construction periods. According to statistics, 79.4 percent of the contracts were satisfactorily fulfilled in recent years. In building brick-and-concrete houses, the standard amounts of cement, steel, and timber per square meter were respectively 15 percent, 18 percent, and 38 percent below the actual consumption in the past. According to the statistics on 302 residential housing blocks in Shenyang, Dalian, and other municipalities, the construction period was 78 days less than in 1979 for similar engineering jobs. According to estimates in Shenyang, Dalian, and six other municipalities, the area of residential housing projects completed under contract in the province in 1981 amounted to 2.51 million square meters, and the cost per square meter was reduced by 4.58 yuan. It was estimated that the state saved 11.5 million yuan on this account.

3. Strengthening the Enterprises' Business Management

The main objectives of the economic responsibility system are to improve economic results and to stimulate the enterprises' interest in economic

management in addition to production, so that the building enterprises will gradually change from purely production enterprises to both production and business enterprises.

For the all-round implementation of the economic responsibility system at all levels, the building enterprises in Liaoning have extensively set up production and business management systems at all levels from the executive down to the work units, shifts, and groups. They have also trained, according to requirements and in a planned way, more than 7,000 managerial personnel of various types. On the basis of responsibility at every level down to the individual workers, there is also a system of strict evaluation with prompt rewards and punishments, so that economic responsibility, economic results, and economic benefits are all closely combined.

To ensure the implementation of the economic responsibility system, the control of quotas, firsthand records, and such basic work as measurement, testing, and quality inspection were greatly strengthened so that all activities will in due course be shown in figures, with marked improvement in production and management.

4. Arousing the Enthusiasm of Enterprises and Their Workers and Staff Members

"Whoever is responsible has to think carefully and work diligently." Enforcing the economic responsibility system down to the individual level and linking it to economic benefits have aroused enthusiasm in all fields. The second work zone of the second provincial company, for example, contracted the work of building No 4 dormitory of the Provincial People's Hospital to a contracting team headed by Tao Jingfu [7118 0064 4395] and also adopted a joint contract for all the work units. The component, materials, and equipment departments all willingly offered on-the-spot services, and the workers and cadres struggled in unity. The task, which normally would have required 45 days, was completed in 34 days, with no lime stains left on the floor or brick fragments left behind at the work-site. It was civilized construction of fine quality, and the cost of construction was reduced by more than 16 percent.

Since the adoption of the economic responsibility system, scaffolds and other equipment have been on a rental basis. The daily rental is 0.20 yuan for each scaffold pole and 0.15 yuan for each gangplank. Since then, all work shifts and groups have planned their work and protected their equipment very carefully. As soon as the work is completed, the rented equipment is promptly returned. The amount of stockpiling, loss, and damage has been greatly reduced. In 1980, the enterprises assigned 53 types of frequently used tools to the work shifts and groups and made a one-time charge. From this source alone, the Construction Building Bureau of Dalian Municipality saved 105,000 yuan.

5. Increasing the Decisionmaking Power of Enterprises, Creating Conditions for Stimulating the Economy, and Improving the Workers' Livelihood

After practicing the system of turning in their profits to the state at fixed quotas, the enterprises can keep the surplus profits and thus acquire a certain financial power. As long as the wage fund does not exceed the coefficient for every 100 yuan's volume of work, they can use this fund flexibly. Since the enterprises are required to supply the contracted amount of materials for every square meter of floorspace, any materials saved will belong to them and they will have the power to regulate the use of these materials. They also have the power to determine the priority order of different jobs during the contracted period. All these are favorable conditions for stimulating the economy and improving the workers' livelihood. In the past 2 years, the Building Construction Bureau in Liaoning Province used 37.16 million yuan of retained profits to purchase 1,745 sets of production equipment, to transform 149 production bases, to improve the working conditions for the workers and staff members, and to enlarge the productive capacity. Another 43.51 million yuan was spent in building or repairing dormitories with a total floorspace of 288,000 square meters, thus greatly improving the workers' housing conditions.

(III)

Adoption of the economic responsibility system marks an important reform in the management of construction enterprises. This system has been in force in our province for only 3 years, and it is necessary for us to constantly review our work and to explore or discuss the problems.

1. Problem of Base Quota of Profits To Be Turned In

From our experiences of the past 3 years, we can see that the system of responsibility for turning in profits is a good one. But how is the base quota to be determined? This question deserves a thorough discussion. Based on the practice of the construction enterprises in our province, we should consider the following points:

(1) Determination of the base quota should be guided by the principle of an advanced average quota, with a certain leeway provided.

The system of responsibility for profits to be turned in to the state by the construction enterprises in Liaoning Province actually began in 1975. In order to eliminate the prolonged losses at that time, the finance departments, the Construction Bank, and the Capital Construction Commission in the province jointly decided that, effective in 1979, the annual amount of profit to be delivered was to be increased from 3 million to 4 million yuan; the increased amount remained as the base quota when the system of responsibility for profits to be turned in was decided on for the state-run building enterprises in the province in early 1980. At the same time, the actual profits handed over in the previous 3 years were reviewed and analyzed. In 1977-1979, the total profit of the enterprises was 67,731,000 yuan, averaging 22.58 million yuan each year. Of the total profit,

12.2 million yuan, or an average of 4,067,000 yuan each year, was handed over to the state. At the same time, some concessions were made for some construction enterprises in the province, especially those with meager profits. Their legal profit was only 2.5 percent, the lowest in the country. Their mechanization level was low, and most of their work had to be done manually. The manual labor was toilsome and had to be carried out in the open air under poor working conditions. Many welfare measures for the workers were overdue. In their dormitories, the floorspace per capita was only 2.19 square meters, against the provincial average of 3.4 square meters. Their livelihood was in urgent need of improvement. Therefore, it was decided that "the quota of profits to be handed over to the state by state-run building enterprises in 1980 is to be set at 4 million yuan. The same amount will have to be handed over even in the event of a loss, but any above-quota profits will be retained. This arrangement will remain unchanged for 3 years." This was specifically mentioned in the "Notice Concerning Implementation of the 'Provisional Rules and Regulations Concerning Relevant Problems in Expanding the Decisionmaking Power of State-Run Building Enterprises,' Jointly Issued by the State Capital Construction Commission, the State Planning Commission, the Ministry of Finance, the State Labor Bureau, and the State Supplies Bureau," and it has served as an important basis for the system of responsibility for profits to be handed over to the state by all construction enterprises in our province.

(2) The amount of profit to be handed over depends on how the portion retained by the enterprises is to be used.

When the base quota was determined in 1980, it was anticipated that adoption of this system would arouse the enthusiasm of the enterprises and their workers and staff members, resulting in a large increase in enterprise profits. Therefore, it was also decided that the state would no longer invest in the expanded reproduction by the state-run building enterprises or in the building or repair of their dormitories, and that all these expenditures should be paid out of their retained profits. According to our investigations, in the 3 years prior to the adoption of the responsibility system, the state had to spend a total of 21.71 million yuan on these enterprises--or 4.24 million yuan each year--for subsidization of their losses and for other purposes. Thus, even after deduction of the profits turned in by some enterprises, the state had to spend 3.17 million yuan on these enterprises each year. After the responsibility system was adopted, the retained profits of the enterprises exceeded the state's investment, so that instead of incurring heavy expenditures, the state is now making net gains. Viewed from either the original arrangement or from the way the retained profits are to be used, setting the base quota at 4 million yuan each year was consistent with the situation at that time. It was beneficial to the state, and could be achieved by the enterprises with some effort.

(3) Should the base quota in the responsibility system be based on the profit level planned at the beginning of each year, or on the actual profits made at the end? We believed that the former method should be used, for the reason that targets should be set in advance or at the beginning of

the year; otherwise they would be meaningless. If the quota is set once and for all at the beginning of the year, it will guarantee the state's revenues and arouse the enthusiasm of the enterprises and their workers and staff members. This means killing two birds with one stone. When the system of profit responsibility was adopted in 1980, it was planned that total production costs would be reduced by 21,879,500 yuan--which, after a reduction of 8.38 million yuan for extra operating expenses and 3.38 million for enterprise funds, would still leave a balance of 13.5 million yuan; 4 million yuan, or 30 percent of this amount, should be turned in to the state under the responsibility system. In 1981, again, it was planned that total production costs would be reduced by 30.73 million yuan. After deductions for the extra operating expenses and the enterprise funds, there would still be a balance of 23.22 million yuan. The amount of profit to be handed over to the state was 10.25 million yuan, or 43.1 percent of the total profit. Thus, in these 2 years, the state had a net receipt of 16.05 million yuan, which, after a reduction of 2.81 million yuan in investments, meant a net gain of 13.24 million yuan. This was the first time in more than 10 years that the state's liability had been turned into an asset. Practice has proved that adopting the responsibility system based on planned profits at the beginning of the year is advantageous both to the state and to the enterprises.

(4) What should be our attitude toward the achievements in the profit responsibility system? Since 1980, when the system was instituted in the province at all levels, from the bureaus in charge to the enterprises and to the various departments and individuals within the enterprises, the close combination of responsibility, rights, and interests greatly aroused the enthusiasm of the enterprises and their workers and staff members, resulting in a sharp increase in their profits to 31.31 million yuan--a 1.17-fold increase over 1979, and a 1.8-fold increase over the annual plan. Such a fine result could not have been anticipated by anyone at the beginning of the year. Facts have once again proved the strong vitality and the suitability of the profit responsibility system or other economic responsibility systems to the special characteristics of construction enterprises. This system should be warmly supported, instead of being attacked as departmentalism, decentralism, having irrational base quotas, and so forth. In short, we cannot reject the method used in the system, in the face of its achievements. Building enterprises should maintain their proper relationship with the state and strengthen their overall concepts accordingly. This is actually what they have been doing all along. The original regulation called for 4 million yuan to be turned in each year, and for this amount to remain unchanged for 3 years. In fact, because of the large profits gained, this amount has been changed and increased as required by the state every year. Thus, at the end of 1980, the amount actually handed over was 5.8 million yuan, a 46-percent increase over the original quota. In 1981, 10.25 million yuan, 2.5 times the original amount, or 76.7 percent over 1980, was handed over. In 1982, the quota of profit to be handed over was 18 million yuan, a 3.5-fold increase over the original quota and 75.6 percent over the actual amount in 1981.

2. The Question of Whose Responsibility

There are two forms of profit responsibility in Liaoning Province. One of them was jointly worked out by the provincial Capital Construction Commission, the Construction Bank, and the finance department. The other was undertaken jointly by the bureau in charge and the finance department, and shared by the enterprises through the arrangement of the bureau in charge. Practice over the past several years has shown the merits of this system in arousing enthusiasm and producing good results. In 1975, after the adoption of the responsibility system, the profits turned in [to the bureau in charge] were in part handed over to the finance department and in part retained at the enterprise level to be used for subsidizing the losses of some enterprises. Thus the losses [of the business as a whole] were gradually eliminated, and the profits averaged 16.84 million yuan each year. However, since the responsibility was at the higher level only, the building enterprises still enjoyed "eating from the common pot" under the system of unified receipts and payments, and the result could not be quite satisfactory. [Later,] in line with the principle of direct relationship between responsibility and benefits, the responsibility for profits developed to include both the bureau in charge and the enterprises, and the average annual profit sharply increased to approximately 60 million yuan, a 2.5-fold increase over the amount obtained when responsibility was confined to the higher level. This fully illustrates the strongpoints of having the responsibility undertaken by both the bureau in charge and the enterprises, since it has helped not only to even up the resources but also to arouse the enthusiasm of the bureau in charge and the enterprises and their workers and staff members.

3. The Question of Distribution of Benefits Among the State, the Enterprises, and the Workers and Staff Members

This is an important question in the adoption of the system of economic responsibility in any form. The enterprises should first consider the state's benefits. In 1980, even though no state investment was required, the enterprises handed over to the state a net amount of 4 million yuan out of their profits, showing their high regard for the state's benefits. At the end of that year, however, there was a 1.8-fold increase in profits over the planned figure. The amount handed over to the state, though it had already increased to 5.8 million yuan, was only 10.7 percent of the profits. In 1981, the amount handed over to the state increased again to 10.25 million yuan, but this still accounted for only 19.5 percent of the profits. Viewed from these proportions, the amounts handed over were somewhat inadequate. That was why, in 1982, the amount was further increased to 18 million yuan, or 55 percent of the profits.

In studying the distribution of benefits among the three parties, it is important that the proportions of profit sharing should be analyzed. At the same time, however, we must also note how the enterprises' retained profits are actually used. For 2 years since the adoption of the responsibility system, the enterprises have retained a total of 103,454,000 yuan, of which 37,161,000 yuan, or 35.9 percent, was spent on expanded reproduction;

43.51 million yuan, or 42 percent, on building or repairing dormitories; 16.9 million yuan, or 61.3 percent [as published], on treasury bonds; and 1.7 percent on collective welfare, leaving a balance of 3.9 percent. A total of 80,641,000 yuan, or 78 percent of the total profits retained, was spent on the first two items, which in the past had to be financed by the state. Now, the use of retained profits instead of state investments to increase the state's fixed assets should be considered a contribution to the state from the building enterprises. The state investments saved and the profits handed over to the state totaled 96.72 million yuan--81 percent of total profits. Thus the state actually obtained the major portion. At the same time, we must note the many advantages of the profit responsibility system to the state, such as shorter construction periods, better work quality, and lower construction costs.

Speaking of benefits for the enterprises, we can see that with the adoption of the economic responsibility system and the expansion of their decision-making power, the enterprises have their own sources of funds with which they can carry out urgently needed technical transformation, expand their production, and create favorable conditions for revitalizing the economy. They can also improve the workers' housing conditions by building or repairing their houses and undertaking such collective welfare projects as opening kindergartens or swimming pools.

For the individual workers and staff members, the annual per capita above-quota wages and bonuses were increased from 114 yuan in 1979 to 149.5 yuan in 1980, after a 31-percent increase; and to 145.69 yuan in 1981, after an increase of 27.8 percent over 1979 and a decrease of 2.55 percent below 1980. Document No (80) 64 states that, of the profits retained by the enterprises, "approximately 10 percent can be used as bonuses." Actually, this bonus fund was not used. The above-quota wages and bonuses for workers and staff members were appropriated and controlled according to state regulations. The above-quota wages and bonuses were higher than in 1979 only because of overtime work and higher efficiency, while the proportion of wages in every 100 yuan's volume of work was lower instead of higher.

We are now studying and implementing the spirit of the 12th Party Congress. To create a new situation in all fields of socialist modernization and to build up more funds for key construction projects, it should be proper to raise to a suitable level the base quota of profits to be handed over to the state. This is understandable to the broad masses of cadres and workers in the building enterprises.

4. Question of Profit Sharing

Profit sharing is an important question in financial administration. According to the experiences of the construction business in Liaoning Province, the methods of reimbursement for actual expenses, unified receipts and payments, the 5:5 profit-sharing [method], and the present system of responsibility for profits have been used. Which method is best? We feel that the choice of any method should be inseparable from the level of productive forces, and whether it is correct or not should be tested in

practice. Since 1967, the state has used different forms of financial control among the state-run building enterprises in four different periods:

From 1967 through 1974, the system of reimbursement for actual expenditures was used. During those 8 years, the state spent 53.46 million yuan subsidizing the enterprises' losses, and invested 10,051,000 yuan in capital construction. The total state outlay on these two items was 63,511,000 yuan.

From 1975 through 1978, the method of unified receipts and payments, or "eating from the common pot," was used. In those 4 years, the enterprises handed over to the state profits totaling 11.25 million yuan, and state investments totaled 34,522,000 yuan. After deducting the profits turned in, the state still had to spend 23,302,000 yuan.

In 1979, the 5:5 profit-sharing method was used. The total profits of the enterprises were 28,251,000 yuan, of which the state received 3,950,000 yuan (and the provincial Construction Bank kept 4,178,000 yuan). That year, the state invested 8.5 million yuan and, after deducting the profits turned in, still had to spend 4.55 million yuan.

Since 1980, the system of profit responsibility has been used. According to the statistics for 1981 and 1982, the total profits of these enterprises were 119,504,000 yuan, exceeding the sum total of the 5 preceding years by 35 million yuan, and the profits handed over to the state totaled 16.05 million yuan. From this, we can clearly see which method of profit sharing is best. Among these four methods, that of 5:5 profit sharing is better than the first two, but that of responsibility for profits is the best of all.

The system of economic responsibility, and particularly of profit responsibility, are still in the early stage of development, and it will require a process of practice-knowledge-practice again-knowledge again to bring about their perfection.

These are our tentative views; comments on our errors are invited.

9411

CSO: 4006/350

DOMESTIC TRADE

SOLUTIONS TO PROBLEMS CONCERNING COMMERCIAL WORK DISCUSSED

Beijing CAIMAO JINGJI [FINANCE, TRADE AND ECONOMICS] in Chinese No 2,
11 Feb 83 pp 1-3, 8

[Article by Liu Yi [0491 3015]: "Thoroughly Implement the Spirit of the Party's 12th National Congress, Solve the Several Problems Concerning Commercial Work"]

[Text] In his report to the 12th National Party Congress Comrade Hu Yaobang pointed out: "The condition of commercial work directly affects industrial and agricultural production and the people's livelihood, and this issue has gradually and clearly demonstrated its importance in our country's economic development." He demanded that we "must, after fully understanding the situation and seriously summing up experiences, thoroughly improve commercial work, energetically establish, expand and increase circulation channels so that goods can be circulated smoothly and serve their proper purpose. We must also bring into full play the role of commercial enterprises in promoting and leading production, guaranteeing supply and bringing about a prosperous economy."

The 12th Party Congress Report not only clearly pointed out the position of commercial work in socialist modernization, but also the direction of how to raise the level of commercial work. We must conscientiously implement the spirit of the 12th Party Congress, continue to eliminate the wrong effects of the "left", further loosen policies and improve commercial systems, strengthen and improve commercial work and, as soon as possible, open up new prospects.

In October 1982, the commercial department held a national commercial work conference. In accordance with the series of principles and policies of commercial work adopted by the 12th Party Congress, the basic tasks of commercial work in the new period are: promote commodity production, develop commodity circulation, bring prosperity to urban and rural economies, and serve the increasing material and cultural needs of the people and socialist modernization. These basic tasks reflect the demand of developing socialist commodity production and commodity exchange. They also reflect the necessary function of the new period's commercial work in the national economy and the basic objective of socialist commodity circulation.

In order to accomplish these basic tasks, the following problems must be effectively handled.

On the Issue of Relying Mainly on Economic Planning While Making Market Readjustment Subsidiary

The 12th Party Congress Report pointed out: "Our country practices economic planning on the basis of public ownership. Planned production and circulation of some products are allowed to go unplanned but readjusted by the market." On the basis of this spirit, the boundary and range between planned management and market readjustment in commodity management must be accurately drawn. Command-style planning should be applied to important products and means of subsistence affecting the national economy and the people's livelihood, such as grain, cotton, edible oil, pork, cloth, petroleum, coal, chemical fertilizer, agricultural chemicals, sugar, wool and cattlehide, which are under the categories of state monopoly for purchasing and marketing, assigned purchasing and planned purchasing. After the implementation of the plan, products authorized by the national policy must be given more channels of circulation, and state-operated commerce should also energetically participate in the management of market readjustment. Concerning products purchased by order, guidance-style planning should be practiced. The principal method is to set up a contract system (all products should come under the contract system) in which both the producers and the distributors shoulder obligations. State operated commerce cannot and does not need to control third category agricultural and supplementary products and industrial products, which are large in quantities and varieties. Instead, these products should, under the limits permitted by the national policy, be readjusted by market demand.

Under the prerequisite of resolutely planning the economy and accomplishing the task of unified purchasing, assigned purchasing and planned purchasing, state-operated commerce must vigorously support and participate in market readjustment, loosen its policies and enliven management. In other words, it must, on the one hand, organize circulation and distribution of major products according to the country's planning, guarantee social production and the basic needs of the people's livelihood and, on the other, energetically participate in market readjustment. It must, alongside with collective and individual commerce, give full play to their advantages, expand the purchase and marketing of products, display the main guidance function of state-operated commerce and guarantee the socialist direction of the products' circulation.

On the Issue of a Socialist Centralized Market

A socialist centralized market is formed by various economic components and many circulation channels. State-operated commerce, under the system of ownership by all the people, holds the leading position and is the main channel of commodity circulation. It is responsible for unifying and arranging urban and rural markets, coordinating relationships between commerce of different economic components. Collective businesses of different forms, including cooperative businesses, old cooperative shops

(groups), city and town businesses managed by the cooperation of educated youth and residents, and businesses of agricultural communes and brigades, are functional assistants of state-operated commerce, and their development should be supported. Production enterprises and departments which sell their own products, combined agricultural-industrial-commercial establishments and joint management commercial enterprises, while belonging to different systems of ownership, are developing commerce emphasizing the close cooperation between production and marketing. Individual businesses in urban and rural areas are essential parts of public-owned businesses, and should be developed and placed under management guidance. The peasants' practice of producing and selling on their own and the existence of agricultural trade markets in urban and rural areas are considered to be state-directed free markets. They are indispensable supplementary channels for bringing prosperity to the urban and rural economy and can enhance the people's livelihood.

Management proportion [3024 6850] of various types of economic components should be coordinated in line with the guideline of selling more at wholesale and relating restrictions at the retail level. State-operated commerce controls approximately 70 percent of the purchase of agricultural products and wholesale industrial products so as to stabilize markets and assure the people's livelihood. [Controls on] retail commerce must be loosened to provide employment and better service for the masses. State-operated commerce maintains approximately 60 percent of retail levels, 30 percent in city catering trades, while in rural areas the catering trade is basically managed by collectives or individuals. Retail commerce and catering trades by collectives and individuals should be greatly developed in cities and villages, regulations to administer different commerce should be established so that enthusiastic management could come out within the established limits set up by policies, and the order of socialist centralized markets will be maintained.

On the Issue of Promoting and Guiding Production

Commerce must promote and guide production. Commerce's relations to production should be to "promote" and "guide". While to "promote" means to make great effort to promote the development of commodity economy, to "guide" means to guide the production of commodities which suit the market. In the recycling process of production in the whole society, circulation is not a passive adaptation. It has a feedback function. Through appropriate purchasing and marketing formats and supportive work, we should use different means of commerce to fully display the feedback function, energetically promote and guide production. This is a basic guiding ideology.

At present, our country's commodity economy is not prosperous at all, and our per capita ownership of products is comparatively low. It is commercial work's starting point and basis to make a great effort to develop the production of socialist commodity. Judging from historical experiences, the following must be done so that commerce promotes and guides production: Firstly, put into practice accurate policies in purchase and pricing;

Secondly, implement various formats of production and marketing contracts and bring closer the industrial-commercial and agricultural-commercial relations; Thirdly, strengthen the support and guidance of agricultural production. Besides continuously supplying means of production to agriculture, activities like new technological services, joint management by producers and sales agents, and the purchase of processed products should be vigorously put into effect; Fourthly, support industrial departments to produce quality products suitable to the market and participate in market activities; Fifthly, exert strong efforts to promote the sales of products. As for agricultural by-products which are produced once every several years, unsteady in production and sales, or over produced by can be stored, an appropriate amount should be put into reserve.

Under the new circumstances of overall development in commodity production and a continuous increase of varieties in market commodities, good market forecasting will have an important function in promoting and leading production. At present, our forecasting work is very weak, inflexible, imperfect in organizational structure, capability and means, and is not good at providing market information. We must quickly establish a network of market forecasting and market information, vigorously plan to construct a national market forecasting center, strengthen statistical and analytical work, set up a system of regularly releasing market forecasts, and link up different kinds of market information. As for important commodities, national investigation and forecasts should be organized; purchasing power potential, production development trends and changes in demand should be thoroughly studied, and main commercial departments at all levels must treat this work as one of regular and important tasks and pay special attention to it.

On the Issue of Improving the Merchandising Form of Industrial Products and Expanding the Promotion of Sales of Commodities

Since 1980, the original contract sales system was changed into four kinds of purchase and marketing systems. This change has proved to be right after 3 years of practice. At present, production enterprises are facing certain new difficulties in selling some of their products. [In order to solve this problem], on the basis of the four purchasing and marketing systems, the number of commissioned wholesalers, commissioned retailers and joint managements should be increased. Industrial and commercial sectors can coordinate and negotiate prices so that joint management, commissioned wholesalers and retailers can work on behalf of the industrial departments. In order to help the industrial departments to expand markets, the commercial departments should strongly emphasize these two systems and vigorously launch the work of expanding the promotion of sales.

At present, some industrial products are unsaleable and overstocked and their inventory has increased; the restriction on some agricultural and supplementary products makes the farmers very concerned about the difficulties in selling. There are many factors leading to this situation. One of the factors is that we have not made great effort in promoting the sales of the products and do not have an effective sales promotion policy.

Circulation channels in cities and rural areas should be established resolutely.

The new system of opening up city and rural circulation channels suggested in the State Council's document No 91 in 1982 should be implemented. Both state-operated commercial companies and basic level supply and marketing cooperatives must not hold a monopoly over cities and villages. The amount of industrial products transported to villages and agricultural and supplementary products transported to cities must be increased, and the differences between the areas must be adjusted in order to achieve a good market for the products and promote the development of commodity production.

1. In regards to the policy of selling agricultural and supplementary products at places far from their producing areas, some of the old methods and restrictions must be eliminated. Besides those under the purchasing plan of the state-operated commercial companies or those not under the plan but being purchased and marketed according to negotiation, products should be allowed to be transported to other places for marketing through more channels. Basic level supply and marketing cooperatives and warehouses should be allowed to promote sales outside of their own county or province. Producers should be allowed to transport the products to far-away places for sale. Individual itinerant traders permitted to transport goods far away for sale can sell them retail as well as wholesale. The management method where products must be examined and approved by companies in charge before being transported to other areas should be abolished. In cities, individual or collective sales networks should be established to manage the business of negotiated marketing of agricultural by-products and special local products so as to establish channels for agricultural by-products to enter the cities.

2. We must implement the policy of applying payment by installment and giving goods away in advance on some durable consumer goods. The policy of absolutely forbidding to sell on commodities on credit should be changed. The commercial department's regulation of payment by installment and allowing the consumers to have the goods before paying the full price should be seriously practiced if the consumer goods are expensive and durable. This is to encourage consumption and to expand sales.

3. The policy of putting seasonal prices on seasonal commodities. The practice of having one price throughout slow or peak seasons should be changed. Methods should be adopted to make purchase prices in slow seasons lower than that in peak seasons. Charges for storing in slow seasons should be viewed as a seasonal price differences transferable to the consumer.

4. The policy of having different prices for processed and non-staple foodstuffs. In order to expand the processing work of food and non-staple foodstuffs to enrich the market, different prices should be put into effect according to different conditions. Food and non-staple foodstuffs supplied at a fixed amount can have two prices. Quota supply should be guaranteed at a low price. The excess can be selectively purchased at a different price.

High quality food, non-staple foodstuffs and brand-name foods should maintain good prices and good quality to satisfy special needs and to increase the withdrawal of currency from circulation.

On the Issue of Perfecting the Purchasing Policy of Agricultural By-products

The purchase of agricultural by-products should continuously practice the policies of unified purchasing, assigned purchasing and negotiated purchasing. Since our country has a small amount of farmland, a large population and low production levels, agricultural products which are of vital importance to the national economy and the people's livelihood must be subjected to the firm policy of unified purchasing and assigned purchasing for a comparatively long period of time. But varieties of assigned purchasing should be appropriately decreased and not be mixed with the unified purchasing varieties. Negotiated purchasing and marketing should be vigorously developed for third category agricultural by-products and the first and second category agricultural by-products which are permitted to enter the market after serving their functions. These policies fit our country's practical situation and must be adhered to for a long time. But in regard to some concrete methods, appropriate readjustment should be adopted following changes in situation so as to make them more perfect. The present practice of paying a higher price for products beyond the purchasing quota should be reformed step by step. The number of varieties whose prices are determined by calculating the fixed ratio of list price and price increase should also be expanded step by step. This method not only maintains the advantages of the numerical method, but also avoids its shortcomings. It gives consideration to the interest of the country, collectives and individuals, and is beneficial to coordinating development between staple foods and economic crops. It brings advantages to the solving of contradictions between old and new producing areas and is easy to carry out. It is necessary to fully understand the concept of a single variety and to improve it.

On the Issue of Reforming the Commercial System

At present, the commercial management system has four major problems: The first is the lack of distinction between administration and enterprise, with administration intervening too much. The second is the large increase of second level stations constructed according to administrative district demarcations, thus increasing the circulation chain of commodities. The third is the enterprise management method of "everyone eating out of the same big pot" and equalitarianism. The fourth is the system of rural supply and marketing cooperatives, which do not suit rural economic structural changes and the needs of commodity economic development. Therefore, major reforms concerning the commercial management system must be launched after investigation and study.

Based on all the demands on the reform of the country's economic system and the existing problems of the commercial management system, we consider the reform direction to be as follows: establish state-operated commercial companies with separate administration and enterprise, organize commodity

circulation according to economic districts, reduce wholesale levels and inbetween links; based on the dimension and special characteristics of retail enterprises, practice state ownership and management, state-ownership but collective management, and contract management, so as to arouse the enthusiasm of basic level enterprises and the workers; change rural supply and marketing cooperatives to a cooperative commerce nature.

1. Establishment and management of specialized companies.

Based on the principals of separating administration from enterprise, division of labor in commodities and unified control of cities and villages, three kinds of special companies should be established. The first type of company manages commodities concerning the national economy and the people's livelihood, with their transfer and balance done nationally; the second type of company manages the transfer and balance of most of their commodities within a certain area, and their transfer relationship is comparatively stable; and the third type of company chiefly serves the local areas. All types of companies should, step by step, establish some direct enterprise entities to change the simple administration and management.

2. Establishment and management of wholesale organizations.

The preliminary idea is to gradually change the present three-level wholesale system into a two-level wholesale system and to change the present situation of establishment on the basis of demarcation of administrative districts. The level eliminated will not be abolished, but will instead be mainly used to strengthen basic level wholesaling and to improve management and some may be changed into transfer organizations used for storage and transport. While wholesale organizations are readjusted, commodity circulation centers should be set up in major collecting and distributing centers and cities.

3. Rural supply and marketing cooperatives must carry out administration and management in a mass, democratic and flexible way.

It is necessary to carry out pilot projects in joint management of production supply and sales at basic level communes, specialized households and specialized groups. Basic level communes should be made into cooperatives integrated with peasants' production, processing work and sales benefits.

4. Reform and management of retail enterprises.

The preliminary idea is that state management and the management responsibility system should be applied in an all-out way on large scale retail enterprises, food service trades and basic level staple food stores, while state ownership but contract management by collectives will be applied on small scale retail stores and food service shops.

12365

CSO: 4006/401

2. Households contracted to special trades can be registered; and households contracted to pure production such as planting and breeding will not be registered for the time being.

3. Handicraft workshops which produce small commodities and are run by individuals or with one or two helpers and no more than five apprentices can be registered; and production utilizing small motor-driven machinery and equipment with approval of electricity administrative departments for electricity supply can also be registered.

4. Peasants purchasing, borrowing or renting motor-driven vehicles or ships on their own to engage in the individual transportation business can be registered after acquiring driving and navigating licenses and oil supply certificates in accordance with related rules and regulations of communications and transportation departments; and households which sign contracts with production brigades to take transportation assignments from outside using the vehicles and ships owned by production brigades should be registered by the production brigades as groups.

5. Individual food stands (restaurants) can be given business licenses in view of the convenience of the masses and the needs of establishing network outlets after being examined and approved by sanitation and anti-epidemic departments in accordance with food hygiene regulations and being examined and approved by industrial and commercial administrative departments in accordance with registration and management regulations.

6. Individuals who personally engage in procurement, processing and marketing business activities such as cloth designing, tailoring, procurement and marketing can be registered as individual handicraft households.

7. Individuals who personally engage in home maintenance for a long time--the "five craftsmen of rural areas"--can be registered on the condition that they hire no more than two helpers and five apprentices.

8. Workers who quit their jobs to engage in individual businesses can be registered according to related regulations if they have a certificate of approval from the units where they worked before.

12302

CSO: 4006/409

DOMESTIC TRADE

INCREASED TURNOVER FROM RETAIL TRADE IN FUJIAN REPORTED

Fuzhou FUJIAN RIBAO in Chinese 20 Mar 83 p 2

[Article by News Report Group, Provincial Statistical Bureau: "Total Turnover From Retail Sale of Social Goods Increases Nearly 10 Percent"]

[Text] Last year, our province's total turnover from retail sale of social goods further increased 9.98 percent, compared to 1981, on what has already been achieved continuously in the past 3 years. The turnover from retail sale of social goods increased 8.6 percent, and that of goods supplied by the peasants to the non-agricultural population increased 38 percent.

Last year the market of our province showed the following main characteristics:

- 1) Contradictions in the supply of consumer goods were alleviated. There was an increase, in different degrees, in buyers' market and in consumption of food, clothing and articles of everyday use. The scope of increase in consumption of high-grade and durable goods was fairly great: bicycles, 59 percent; sewing machines, 35 percent; television sets, 190 percent, electric table fans, 57 percent; and watches, 47 percent. A new scene has appeared where the people seek quality and novelty when buying clothing, and look for name brands when selecting daily necessities.
- 2) Trade market was active. The sale of goods that the peasants supply to the non-agricultural population has reached 400 million yuan, a big increase compared to the year before.
- 3) There was a big increase in means of agricultural production. Last year's turnover from retail trade of means of agricultural production increased 8.9 percent.
- 4) The scope of increase in the turnover from collective and individual retail trade was greater than that from state-operated trade. While the increase in state-operated retail trade was 4 percent, it was 26 percent in collective retail trade and 92 percent in individual retail trade.
- 5) In step with the development of spiritual civilization, the market for sports goods and cultural goods became very active. Sale of our province's

machine-made paper increased 32 percent; sale of pens and pencils increased by 100,000 pieces, and that of acrylic fiber sportswear increased 87 percent. There was also an increase in smaller sports goods, table tennis and badminton equipment. Chinese billiard, chess and Chinese checkers sets that were kept in stock for a long time became hot selling goods.

6) The market circulation channels multiplied. Since various economic elements are engaged in trade, the speed of turnover from collective and individual retail trade has been faster than state trade in the total turnover from retail trade in our entire province. Industry and other trades have been increasing faster than commerce, their proportion has had a distinct rise.

12200

CSO: 4006/407

DOMESTIC TRADE

DEVELOPMENT OF RETAIL, SERVICE TRADES URGED

Beijing JINGJI RIBAO in Chinese 21 Mar 83 p 2

[Article: "Speed Up the Development of Retail Trade and Service Sector in Cities and Rural Areas"]

[Text] The "Directives Regarding the Development of Retail Trade and Service Sector in Cities and Rural Areas," put forward by the CPC Central Committee and the State Council, point out clearly the place and role of the trade and service sector in our national economy and provide the guiding principle and policy for the task. This document has fully manifested the party's and the state's concern for the lives of the people and has given the staff and workers in the retail trade and service sector great encouragement. Commercial departments at all levels must implement these directives to the letter, jointly with other departments concerned, and under the leadership of the party committee and the government.

Comrade Hu Yaobang pointed out in his report at the 12th Party Congress that "the quality of commercial work has a direct impact on industrial and agricultural production and the people's lives; and the importance of this issue in our economic development has been shown more and more distinctly." Retail trade and service are on the front line of our commerce. There are numerous trades that are widely scattered and are closely related to production and people's livelihood. No one can live without them. With the development of commodity production in our cities and rural areas and the improvement of the people's living standard, there is a more and more urgent demand for correspondingly developing the retail trade and service sector. This is the objective need in coordinated development of the whole national economy.

For a long period there has been a tendency in our economic work to place emphasis on production and neglect circulation, because we did not fully understand the necessity of developing socialist commodity production and commodity circulation. We did not know enough about the place and role of commercial and service trades in the national economy. And in addition, we were influenced by wrong "Left" ideology.

Although in recent years there have been changes, commercial and service trades are still in a backward and passive situation. Remnants of outdated concepts about trade and service sector which were despised by the exploiting

classes in the old society still exist in some people's mind. We must, therefore, mobilize, on a large scale, the public opinion from all quarters, forcefully propagate the place and role of commerce and service trade in the national economy. We must establish a new custom to respect commercial and service work, cite advanced individuals and deeds in commerce and service trade. In the meantime, we hope that the vast commercial and service trade staff and workers will establish their sense of pride in and their love for their own work, and do a good job wholeheartedly, bringing new honor to the commercial and service trade work.

One of the important conditions for developing commerce and service trade is to speed up the training of qualified personnel. At the moment, the level of educational and professional knowledge of the commercial employees and workers is, in general, low, and their technical knowledge of commodities and accounting is insufficient. Some of our world-renowned catering service trades that require special skills are also in temporary shortage and in need of new people. We must speed up the training of commercial and service sector personnel in two areas: On the one hand, we must conscientiously set up higher and middle level commercial and service trade schools, fully using this front to train specialized personnel for commercial departments, infusing new blood. In the future, we must gradually change the way of recruiting workers directly from the society to replenish the commercial contingent, that is, change from "recruiting now, training later" to "training first, working later." On the other hand, we must strengthen the on-the-job training of commercial cadres, staff and workers. Simultaneously with political and ideological education, the priority of professional training is on the education of young and middle-aged staffs, and workers' junior high school supplementary studies and primary professional skills, combining universal education with further improvement. We should help them learn and acquire the necessary basic knowledge and skills for their work, following the principle of learning what one is doing and making up for what one is lacking. We should also, on the basis of universal education, go one step further and enforce directive training and supplementary studies in accordance with the standards of their professional skills and their economic and technical job titles.

In developing the retail trade and service sector, we must enhance forcefully, along with readjustment and good management of state-owned enterprises, collective-managed, and appropriately individual-managed commercial and service trades. The state-owned economy is the leading factor and various economic forms are to coexist. This is determined by the level of our productivity at the present stage and also by the need for economic development, economic stimulation, supply guarantee and increase in employment. In recent years, though there has been a fairly big increase of network outlets in the commercial and service sector, and the collective and individual retail trade and service sector have gained fairly rapid recovery and development, the nation as a whole is far from suiting the needs of various aspects of the people's lives. Currently, on the one hand, there are not enough retail outlets, the service range is narrow, the quality of service is unsatisfactory, the situations, such as "difficulty in shopping," "difficulty in food and lodging," "difficulty in clothes-making," and "difficulty in having things

repaired," etc., have not been fundamentally changed. On the other hand, there are a number of unemployed young people who have not found employment. In order to resolve this contradiction, we must continue to develop the collective and individual trade and service sector. As the retail trade and service sector must be timely and regional, small size and decentralization are more suitable for managing them. This characteristic requires us to turn our attention to the development of collective and individual-managed trades, fully utilizing the advantages of their responsibility for their own gains and losses and their flexibility. Thus, we must firmly correct various discrimination against and exclusion of collective and individual trades, following the principle and policy stipulated by the "Directives," support, foster and direct enthusiastically the development of the collective and individual retail trade and service sector.

The objective of the socialist retail trade and service sector is to serve the people. Regardless of whether retail trade and service sector is state-owned, collectively or individually operated, they all must adhere to the direction of socialist management, and serve the people wholeheartedly. Currently departments of the retail trade and service sector are implementing the contract system of management responsibility. Cadres, employees and workers in commerce must stand on the first line of the reform, conscientiously and successfully manage the internal administration of the enterprises, and ensure the smooth implementation of the contract system of management responsibility. We must unify the enterprises' economic and social results, and look after the interests of the state, the enterprises, the employees and the consumers. Any action that is harmful to the interests of the state and the people must be seriously dealt with. Every uncivilized and impolite action must be restrained by relevant stipulations in management contract system. We must widely and thoroughly enforce the "five stresses, four points of beauty, and three ardent loves," as well as "three advantages and one learning" in the activities of "All People Decorum and Courtesy Month." We must take Comrade Zhao Chune [6392 2504 1230] as an example, acquire communist ideology, set good quality service as a priority, make efforts to improve our service attitude, improve service quality, make the retail trade and service sector truly the window of dissemination of socialist material and spiritual civilizations, making proper contributions to the building of the "two civilizations."

12200

CSO: 4006/407

DOMESTIC TRADE

INDIVIDUAL ECONOMY DEVELOPS IN RURAL, URBAN AREAS

Beijing JINGJI RIBAO in Chinese 28 Mar 83 p 1

[Article by Xie Zhenjiang [6200 6966 3068]: "Individual Industrial and Commercial Businesses Are Developing Progressively in Rural and Urban Areas--Over 3 Million Individuals Were Engaged in Such Businesses by the End of Last Year; Commercial and Catering Businesses Accounted for a Fairly Large Proportion"]

[Text] According to the State Industrial and Commercial Administrative Bureau, individual industrial and commercial businesses are being gradually resored and developed in our country's rural and urban areas under the guidance of the policy of opening to the world and enlivening the domestic economy.

According to statistics, over 2,636,000 households had individual industrial and commercial business licenses, and over 3,198,000 people were engaged in such businesses in rural and urban areas of our country, excluding Xizang. Classified on the basis of trades and professions, the handicraft industry accounted for 10.2 percent, the transportation industry accounted for 0.9 percent, the home maintenance industry accounted for 0.8 percent, the commercial industry accounted for 46.1 percent, the catering industry accounted for 20.8 percent, the service industry accounted for 10.5 percent and the repairing industry accounted for 9.2 percent and others accounted for 1.5 percent.

In the 4-year period from 1979 to 1982, the number of individual industrial and commercial workers in urban areas increased more than 1,218,000.

By the end of 1982, over 1,504,000 households and 1,840,000 individuals in rural areas were engaged in individual and industrial and commercial businesses, an increase of over 643,000 households and over 622,000 individuals over the corresponding period of 1981. Individual industrial and commercial businesses in rural areas of Hebei, Shandong and Henan provinces accounted for about a half of that in the whole country.

According to statistics in 23 provinces, municipalities and autonomous regions, 617 municipalities and counties have set up associations of

individual workers. The institution of this mass organization is conducive to strengthening the education and management of individual industrial and commercial workers and reflecting their opinions and needs in a timely manner.

Properly developing individual industrial and commercial businesses in all localities is also conducive to opening avenues for production and has solved the employment problem for some jobless youth. It is said that the number of jobless youth who entered individual industrial and commercial businesses in urban areas of all localities increased from over 230,000 in 1981 to over 340,000 in 1982, accounting for over 25 percent of the total number of people in such businesses. In some cities, like Guangzhou, they accounted for over 40 percent.

12302

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FOREIGN TRADE

GU GENGYU ADVOCATES ATTRACTIVE BENEFITS TO FOREIGN INVESTORS

Shanghai SHIJIE JINGJI DAOBAO in Chinese 14 Mar 83 p 3

[Article by Yang Xiaolin [2799 1420 2651], reporter stationed in Beijing: "It Is Necessary To Guarantee Foreign Investors Equitable Profits in Sino-Foreign Joint Ventures—Gu Gengyu Emphasized the Importance of Providing Attraction to Foreign Investments"]

[Text] In January of the year of the boar, I called at the house of Mr Gu Gengyu, the former world-famous "bristle king," vice chairman of the All-China Federation of Industry and Commerce, and adviser at the Ministry of Foreign Economic Relations and trade. Our revered Gu wore a dark blue cotton-padded robe. Although his hair was all gray and he was nearly 80, when he chatted with his native Sichuan accent, he was humorous, witty and incisive.

Ignorance Plus Power Will Do Great Harm

Our revered Gu said: "For any kind of commodities in the world, different countries will have different prices of their own which vary from time to time. What a general manager of foreign trade company should do is not administrative work. What he should devote himself to is investigating the differences between the prices and quality of our commodities and that of other countries, the position, proportion and advantages of a certain commodity in the world and international practice.... This is called market investigation and market forecasting. We cannot set a reasonable price until we are clear about the relations between supply and demand in the world." In those years, under the attacks from both imperialism and bureaucratic capitalism, our revered Gu could actually control the up and down of bristle prices in the world and monopolized over 75 percent of bristle exports. The first secret of his success was market investigation.

Talking about market forecasting, our revered Gu said with deep feeling: "Inaccuracy in business forecasting may lead to small mistakes, but it can be corrected through study. We must never act like the people from the Yelang kingdom and the people from heaven at the same time, because the former are ignorant and the latter have power. Otherwise, we would be like troops from heaven who are afraid to believe and are reluctant to know what the world actually is..."

Mr Gu Gengyu made his home in Hong Kong from 1947 to 1956. In January of this year, he revisited his old haunts in Hong Kong along with the All-China Federation of Industry and Commerce.

Hong Kong's economy is now facing great difficulty due to the influence of the world economic recession. How do we take advantage of the world economic recession and the situation in which international investment funds and technology find no outlet to develop our own economy? This question has been thoroughly studied by our revered Gu. He said that in order to draw upon foreign investment to open joint venture enterprises, we must first of all provide strong attraction. He also expressed his opinions on current joint venture income tax rates, land lease charges and wages in our country.

Actual Tax Rate Is Higher Than Other Far East Countries, Land Price Is Lower Than Hong Kong and Higher Than New York

He held that joint venture enterprises should pay a unified industrial and commercial tax and local tax in addition to the current 40 percent income tax in our country. But other countries do not simultaneously collect these taxes. They transform indirect taxes into direct taxes. Moreover, "legal tax evasion" can be exercised with the help of some experts. Therefore, our country's current tax rate is actually higher than other Far East countries. Foreign investors not only fix their eyes on the stipulated tax rate but mainly on actual tax rate. We should set up special organs to calculate all taxes to see how much money foreigners can earn and whether they still want to invest in our country. An appropriate margin of income tax rate should be allowed, and the tax reduction and remitting period could be more flexible.

Regarding the policy of land price, our revered Gu said that our current land lease charges on joint venture enterprises are lower only than Hong Kong but higher than New York and other places. Land is very precious in Hong Kong and its price is the highest in the world. Problems such as mixing politics with enterprises, decentralization of veto power, bureaucratic business style, complicated procedures and very low efficiency in work could all increase foreign businessmen's doubt about investment in our country.

High Wages Account for Less Than Low Wages in the Cost of Production

Whether a joint venture enterprise can survive and develop is determined by its labor productivity in addition to issues like reselling products. The issue of wages is based on productivity. Our revered Gu gave such an example: There are several tourist hotels in Guangzhou where Hong Kong investors offered to pay every Chinese attendant 1,000 Hong Kong dollars (about 300 yuan RMB) and expected everyone to create a value 1,500 Hong Kong dollars. Chinese attendant's monthly salary was set at 50 yuan RMB, and bonuses less than 100 yuan. In view of this fact, Hong Kong investors could not expect the attendants to create the high value they originally set; and labor productivity was restricted and much lower than the due labor productivity of 1,000 Hong Kong dollar wage in Hong Kong. Judging from the value they can create, high wages account for less than low wages in the

cost of production. Therefore, if we only look at the level of wages and ignore work efficiency, we will be as foolish as seeking small profits in sacrificing the source of long-term interests.

Overseas Chinese Have Talent and Money

In recent years, our country has opened over 40 joint venture enterprises and drawn upon nearly \$100 million foreign investment. What is noteworthy is that overseas Chinese, foreign citizens with Chinese origin and compatriots of Hong Kong and Macao account for over 60 percent. This is a decisive force which has great potential.

According to the statistics of related information, the value of the property owned by people of Chinese origin in the world is over \$100 billion. In the United States, over 30,000 first-class entrepreneurs, scientists and engineers are of Chinese origin, and over a third of deans of various noted universities, over half of the branch chairmen of mechanical engineering institutes, two-thirds of high-level engineers who participated in the project to put men on the moon are all overseas Chinese or people of Chinese origin. Our revered Gu told me at the end: "Most managers and high-level engineers sent by the United States to negotiate on selling technology are of Chinese blood. Under the current situation of the world economic recession, as long as we have appropriate conditions and start taking steps, our future is bright in both utilizing foreign investment and importing technology."

12302

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FOREIGN TRADE

IMPORTANCE OF IMPORT STRATEGY DISCUSSED

Beijing CAIMAO JINGJI [FINANCE, TRADE AND ECONOMICS] in Chinese No 2,
11 Feb 83 pp 18-22

[Article by Shen Liren [3088 4539 0086]: "Views on Import Strategy"]

[Text] Foreign trade involves the two aspects of importing and exporting. We not only should give serious consideration to exporting strategy, but at the same time should give serious consideration to import strategy to make foreign trade serve the creation of a new situation in socialist modernization better.

The Strategic Mission of Importing

Things which are bought through import trade are either means of production or consumer goods. The tools of labor among the means of production which are imported, such as machinery and equipment help increase productive capacity and raise the level of production; the objects of labor among the means of production imported such as raw materials, also help to increase the volume of production and raise the quality of products. The consumer goods imported help to increase market supply and raise the standard of living. At China's present stage where the level of science and technology is low, on the foundation of self-reliance, the development of foreign economic exchange, the importation of advanced equipment and the appropriate advanced technology and advanced management is very important for accelerating modernization. There are many ways and means of bringing in advanced technology and equipment, but the most important one is through purchase. That is, in the last analysis, by importing it. This is one of the most important missions of foreign trade.

Promoting economic growth through import trade is manifested in two areas: one is in helping supply each other's needs and regulating supply and demand. This means material form, i.e., the exchange of use value. China is a large country with abundant resources, but it cannot close itself off and try to be self-sufficient. Although some resources are abundant, they have not yet been extracted and utilized and are only a potential; some resources have already been extracted, but are not yet extensively utilized and have not been made into the final product; some resources, though plentiful, are still far from being matched with needs and conditions

abroad are much better. Our needs must be satisfied, scarcities supplemented, and gaps filled through importing. No country in the world can possess all the goods and all the resources it needs. By developing foreign trade, participating in the international division of labor, exchanging exports for imports, and exchanging our surplus for our shortages we can acquire goods we ourselves do not produce or do not produce sufficiently and achieve our goal of developing production and improving the standard of living. The other area is saving on labor and upgrading results. This means exchange of form of value. Although China has a complete range of industrial and agricultural categories the consumption and costs of different products and different industries is very much out of balance in comparison with the international market. Adam Smith's "absolute costs" and David Ricardo's "comparative costs" both affirm the mutual benefit of foreign trade. Marx discussed value in terms of the world market and established the theory of international value, recognizing that through international exchange more labor product can be acquired with less labor consumption; i.e., for a country with low labor productivity "the inanimate labor in material form expended is greater than what it gains, but the goods thus obtained are much cheaper than what it can produce itself."* Countries have their own strengths and weaknesses and there are great differences in the costs and time required to produce the same kinds of goods. By exchanging exports for imports and also strengths for weaknesses, we can save on social labor and reinvest the labor so saved in production to create greater value and further expand production and improve the standard of living. The above two aspects not only are strategic missions of import trade, but also the strategic policy of import trade. In adhering to this policy we should establish the strategic thinking that not only should we import everything that "we ourselves don't have" and "we ourselves lack", but also should import everything that "we cannot count on producing ourselves" within a specified time.

The Strategic Key Points and Composition of Imports

Within the import volume established we should be particular about the strategic key points and strategic composition of imports and use foreign exchange where it's needed to make the most of our limited foreign exchange.

The foreign trade of old China was of a semi-colonial, semi-feudal nature and the overwhelming majority of imports was consumer goods. Since liberation, this situation has changed rapidly: the emphasis on imports throughout has been means of production. From 1949 to 1979, means of production made up 80.7 percent of gross volume of imports and consumer goods, 19.3 percent. Raw materials made up 67.4 percent of means of production and technology and equipment, 32.6 percent. Industrial raw materials constituted 88 percent of raw materials and agriculturally-used materials, 12 percent. In 1980, raw materials made up 51.4 percent, technology and equipment, 27.5 percent, and consumer goods, 21.1 percent;

*DAS KAPITAL, Vol. 3, p. 265.

in 1981 raw materials made up 46.4 percent, technology and equipment, 26.2 percent, and consumer goods 27.4 percent. The general trend has been that during periods of large-scale economic construction, imports of means of production, especially technology and equipment, have been rather large and during periods of economic readjustment, imports of consumer goods have increased. Whether means of production or consumer goods, imports have played a supporting, supplementing, and balancing role in economic construction and economic readjustment, developing production and improving the standard of living.

What are the key points for importing from now on? Or rather, how should the structure and sequence of imports be arranged? This is the central question of import strategy. Proceeding from China's actual circumstances, let's consider the key points of importing:

First of all is advanced technology and equipment. China is still a developing socialist country currently carrying out large-scale modernization and what is lacking most is the advanced technology and equipment which can transform the backward condition of our economy's technology. On the foundation of self-reliance, advanced, appropriate technology and mechanical equipment imported from abroad is urgently needed to realize the four modernizations. Complete sets of equipment imported in the past was of great help to China's building an independent and rather complete industrial system and for strengthening the ability to be self-reliant. In terms of the present technology and equipment makes up only a little more than one-quarter of total imports, which is lower than historical levels and also lower than the one-third level of developing countries generally, and it also includes vehicles and ships as well as mechanical equipment such as tractors and cranes which it seems should be suitably increased in proportion so they can play a larger role. Of course, this does not mean that the more technology and equipment is imported, the better. In terms of specific control we must pay attention to: 1) The scale of importing should be suited to the scale of construction permitted by the financial and material resources domestically; the portion of imports which utilize foreign capital should be suited to the ability to compensate, form a complete set, and absorb. Going beyond the limits can create imbalance and prevent achieving the anticipated results. 2) The form of importing should differentiate situations and gradually become diversified. In the past we mainly bought complete sets of equipment, but from now on, with the development of our economy and technology, we cannot eliminate complete sets of equipment entirely, but we should actually increase the installment delivery [fenjiao 0433 0074] ratio of complete sets even more and turn towards purchase of key equipment and spare parts for it, purchase of single technological software and developing cooperative production, technical consultation, and such businesses, striving to save money while trying to do more. 3) The make-up of imports should be in accordance with the strategic key points of domestic construction, focussing mainly on the weak sections, such as energy, communications, and agriculture, and place emphasis on technological reform and equipment renewal of existing enterprises and supporting production of consumer goods. 4) For every item we should carry out feasibility studies, guard against importing blindly, guard against importing redundantly, and guard against importing only equipment and not importing technology.

Second is new types of high quality raw materials. The primary raw materials imported in the past were partly natural resources, such as ores, non-ferrous metals (copper and aluminum), wood, and rubber; some were industrial manufactured goods, such as agricultural chemicals, fertilizer, synthetic fibers and steel. These all were resources which were in short supply at the time and by importing them we supplied industrial and agricultural production, construction and the market supply. However, these primary raw materials already make up nearly 50 percent of the volume of imports which are clearly a little high, somewhat wasteful of foreign exchange, and put pressure on the importation of technology and equipment. From now on, we should strive to increase production of, and reduce importation of everything we have the ability to produce domestically; if possible we should also change from importing technology and equipment and produce it ourselves instead of importing it. The key point of imports from now on should be those raw materials which are urgently needed domestically but which we ourselves still cannot produce or cannot produce in sufficient quantity to satisfy needs, especially new high grade materials, such as some metals, raw materials for the chemical industry, and highly localized ore products and local specialties (phosphate rock and tropical woods). This will be even better for upgrading our production technology and can free up some foreign exchange for use in more urgent areas.

Third is some indispensable consumer goods. With the increase in the people's income and the rise in the standard of living the supply of some consumer goods cannot be met relying entirely on our own resources or for some time it will not be worthwhile to produce them ourselves. However, with the development of domestic production there should be some changes in the variety and quantity of consumer goods imports.

The contradiction in import strategy is in the limited nature of foreign exchange income and the unlimited nature of import needs. The key to resolving this contradiction is in correct handling of the relationship between long range interests and immediate interests. In particular, at the present stage where the scale of importing is not great, how to ensure import key points, arrange sequence of imports, and determine import composition, all should be viewed from the perspective of strategy. Taking the long view and getting to work now, handle the relationship between the two well, consider in an appropriate fashion the proportions between importing technology and equipment, raw materials, and consumer goods, make comprehensive plans and comprehensive arrangements and achieve an appropriate combination.

The Economic Benefits in Import Strategy

We should try to gain the greatest economic benefit from limited import foreign exchange. There are basically three aspects to the economic benefits of importing:

The micro-economic benefits of importing. These are the economic benefits of imported goods individually and the specific norm is the rate of profit or loss in foreign exchange expended for each commodity. Importing should

consider the micro-economic benefits of each commodity, i.e., its direct economic benefit. This is needed to strengthen foreign trade economic accounting and to organize the turnaround of foreign exchange funds, and it is also beneficial for organizing withdrawal of currency from circulation and increasing revenue; at the same time if this question is not considered, it may help increase blind importing and expand foreign trade losses. At present our foreign trade losses are growing ever greater, and in addition to the necessity of vigorously improving management and administration and suitability controlling "high loss" commodity exports, it is also necessary to suitably control "high loss" commodity imports.

The import's intermediary [zhongguan 0022 6034] economic benefits. These are the economic benefits of linking imports and exports of commodities and the specific norms are the rate of profit or loss after balancing imports and exports. As far as foreign trade is concerned, in addition to "selling to buy", there is also "buying to sell", the latter referring to mainly the recent rapidly developing importing of materials, importing materials for processing, assembly, cultivation and so on, which already makes up over one-third of the volume of importing and exporting in some coastal cities and regions. Whether it is selling to buy, or buying to sell, assessing profit and loss and determining economic benefits is not carried out on each import (export) individually, but by examining imports and exports together. To import certain goods urgently needed domestically, we must expand exports of some unprofitable goods; to expand exports of some beneficial goods, we must expand imports of some unprofitable goods, especially raw materials. Once again, take food for example: we import wheat, which has a fairly high degree of mechanization but low in price abroad, and export rice, which has a fairly low degree of mechanization abroad but is high in price, thus we can exchange less for more. With regard to each trading partner, sometimes it is even more interdependent or takes the form of reciprocal bartering. Using imports to cultivate exports or using exports to cultivate imports, the factors of exchange rate and price are for the most part in balance. However, we should still consider overall and strive to increase actual economic benefits. At present, turning around foreign trade losses is an important task, and each specialized import-export company should combine imports and exports, raise money overall and strive to reduce losses and increase profits.

Macro-economic benefits of importing. These are the economic benefits for the entire economy, and the specific index is mainly the actual role played by importing in economic growth. It may also be manifested as increases in national income or as the wage increase in distribution status and increases in profits and tax income. Importing means of production, especially technology and equipment, is mainly with a view to macro-economic benefits or specifically as unit investment benefits or social investment benefits. The former, for example importing equipment for technological reform of existing enterprises, apart from the differences in price between imported equipment and similar equipment manufactured domestically, which is a micro-economic benefit, is more a difference in level of function and reflects the actual advantages which can be increased after technological reform. The latter, for example importing

equipment to be used in construction of the weak sections of energy and transportation, with regard to one project there are limits to increased value, output and profits, but because this section is strengthened, it can greatly enhance the development of the entire national economy. The macro-economic benefits of importing are mainly in this kind of "high level profits." At the same time, focussing on the overall picture, we should also make a comparison and calculate the "opportunity benefits", that is, comparing the magnitude of the advantage in spending a similar amount of foreign exchange to import equipment A with the magnitude of the advantage from not importing equipment A but instead importing equipment B, balancing the gains and losses then making the choice. Clearly, this is a question which must be resolved in the overall balance of the national economy.

The strategy of foreign trade imports should be based on the principle of focussing on improving economic benefits, i.e., paying attention to improving micro-economic and intermediary economic, as well as macro-economic, benefits. In some situations there may be contradictions between the economic benefits of importing and the economic benefits of growth of production, and in such cases the latter should take precedence over the former and focus on the overall and long-range aspects. Importing foods, for example: it generally comes in at an uncontrolled price, but goes out at a unified price and cannot create a loss; and for this reason, promoting diversification, increasing output of cotton, tea leaves, and animal products to reduce importing them and even begin to export them can earn supplements.

Policy of Protection in Import Strategy

There can be contradictions between the micro-, intermediary, and macro-economic benefits of importing. One of these contradictions shows up in the contradiction between goods imported from abroad and goods produced domestically. If the conditions exist domestically for producing a commodity or if the conditions for producing it can be created, but the commodity is not yet produced, then we should not rely on imports for the long term. If we are already producing the commodity domestically but for the time being have not satisfied demand, then we should also gradually expand domestic production and limit and reduce imports. This is the case with consumer goods (necessities of daily life and high-grade goods) and also with means of production (raw materials and mechanical equipment). This is because under these conditions due to different levels of production, the imported goods are often higher in quality and lower in price than domestic goods. Managing imports of these goods can lead to higher micro-economic benefits. Ignoring this micro-economic benefit and not organizing appropriate imports or even rejecting imports uniformly and not benefitting the growth of production and the improvement of the standard of living domestically is incorrect. Yet, only pursuing these micro-economic benefits, not appropriately interfering in imports or even letting them exceed the market capacity and influencing domestic production is even more incorrect.

Adopting a policy of protection is a principle of import strategy. This is the way it should be with developing countries, so why should it be different with developed countries as well? At present, the more the international trade war intensifies, the more apparent protectionism becomes. As a developing socialist country, China should conscientiously deal with this question to protect the national economy, especially, the maturation of "young industries" and industries newly started. The policy of protection is the concrete policy of the monopoly system and the management system of "encouraging exports and limiting imports." According to this policy, the nation should have unified arrangements and unified plans as to what to import and how much to import, and to make the relevant stipulations in tariffs, quotas, foreign exchange limitations, and foreign exchange rates and can even clearly prohibit the importation of certain goods. Adopting such policies is not negative, but is considering oneself first, limiting the importation of certain goods to achieve the most rational utilization of limited foreign exchange income, and the importation of the consumer goods and means of production most urgently needed domestically can secure the best, long range macro-economic benefits.

It must be noted that the policy of protection has two sides. The policy protects the national economy so that it does not suffer from outside interference in the process of maturing and so that it will not lose the broad domestic market because it is temporarily in an inferior position in competition with advanced production technology and thus have its development affected. But, under the policy of protection, domestic and international markets are cut off from each other and having no impetus and stimulus of competition is not good for drawing on others' strengths to supplement one's own weaknesses and rapidly upgrade the level of production technology and the level of management and administration. In the course of time, the policy of protection can turn into protecting backwardness. This is one reason why many of China's industrial departments and industrial goods were stopped at their original levels for a long time and became "unchanged for several decades."

Resolving this contradiction rests in correctly handling the relationship between protection or monopoly and competition, distinguishing situations, distinguishing stages, and developing their advantages and avoiding their disadvantages. This kind of import strategy is different from the general strategy of "import replacement", or an import replacement strategy which is selective and limited. Under the guidance of this strategy, the specific policies are: 1) Importing goods for which domestic production can already basically meet market demand and which can compete with foreign goods in terms of quality and costs can generally be stopped and they can be introduced into the international market to continue to increase competition abroad; 2) Importing goods which still cannot be produced domestically to satisfy domestic needs or which are not comparable to foreign goods in quality or costs can be controlled and we can implement the principle of setting price in terms of quality to supplement the inadequacy of supply while at the same time promoting improvement in domestic competition; 3) Importing goods which we cannot yet or just beginning to produce domestically, especially machine equipment, can be done in a

planned way, to serve as lessons of experience and strongly support their own development; 4) Importing goods which we cannot produce domestically or for which the resources and technological conditions are better abroad, including advanced technology and equipment, new style high grade materials and certain indispensable consumer goods can be made key points and for a certain period of time a policy of encouraging imports and not limiting imports can be adopted. In addition to this, we should advocate using national products and oppose worship of things foreign, but not shut ourselves off and blindly reject everything foreign. In sum, the policy of protection is not absolute and even less does it advocate not importing or importing less and less, but importing what should be imported, limiting what should be limited, and prohibiting what should be prohibited, and be in accord with the actual needs of modernization construction.

Strive to Realize the Strategic Goals of Importing

Strategic goals of importing are not determined by need, but by possibility, or one might say, by need with the ability to pay. That is, "volume exported is the import"; the amount of the exports is then the amount of the imports. The ability to pay for imports comes not only from export foreign exchange, but also from non-trade foreign exchange income, including overseas remittances, foreign exchange earned from tourism and the utilization of foreign capital. However, there should be some corresponding commodity as a guarantee for overseas remittances and foreign exchange earned from tourism; utilization of foreign capital, whether it is investment or loans, ultimately should be paid back in foreign exchange. Therefore, for a fixed period of time an appropriate degree of imbalance should be permitted in foreign exchange income and expenditure to strive for more imports and this is beneficial for us; however, in the long view, the scale of imports revolves around the scale of exports and a general balance should be maintained between the two. In the final analysis, the strategic goals of importing should be unified with the strategic goals of exporting. In view of the fact that China broke out of isolation and has been implementing an openness to the outside for only a short period of time, the import-export gross value base is still not very large, the proportion it makes up in the gross value of industrial and agricultural output is still not high, and the proportion it makes up in the gross value of international trade is still not high either. Therefore, in the light of the steady growth of economic development in the future, we can give some thoughts to the trends in import-export trade: 1) The rate of growth of the gross value of import-export may be faster than the rate of growth of the gross value of industrial and agricultural output; therefore, 2) the proportion which the gross value of import-export makes up in the gross value of industrial and agricultural output will gradually increase; 3) the proportion which the gross value of import-export makes up in the gross value of international trade will also gradually increase. According to this projection, from 1980 to the year 2000, the gross value of industrial and agricultural output will quadruple, with an annual growth rate of 7.2 percent; thus, the gross value of import-export may increase annually at a rate higher than 7.2 percent (in the last few years, the average has already exceeded this rate.) By that time, the proportion

which the gross value of importing and exporting individually occupies in the gross value of industrial and agricultural output will gradually increase to above 7 percent; the porportion taken up individually in the gross value of international trade is estimated to increased to above 2 percent. According to present plans, by the end of this century, the gross value of importing and exporting will increase to \$160 billion, roughly \$80 Lillion each, basically keeping pace with the rate of growth of the gross value of industrial and agricultural output. This is reliable, and with effort it may be exceeded. This strategic goal conforms to the spirit of being open to the outside on a foundation of self-reliance, and it conforms to our national circumstances and has our own national characteristics.

Realizing such strategic goals whether in importing or exporting will have a big impact on the development strategy of the entire economy. It can make demands of different degrees on our national economic structure, including the departmental structures, industries, goods and distribution and even the structure of circulation and consumption. Such economic structures utilize two kinds of resources and open two markets and at the same time have the ability to make appropriate changes, and can greatly improve economic benefits.

Import strategy is an organic part of our overall strategy of modernization and serves the general strategy. By striving to realize the strategic goals of importing, we are in fact struggling to realize the glorious goals of the year 2000!

8226

CSO: 4006/402

FOREIGN TRADE

PROPER UTILIZATION OF FOREIGN FUNDS DISCUSSED

Fuzhou FUJIAN RIBAO in Chinese 25 Mar 83 p 3

[Article by Zhang Ruiyao [1728 3843 1031]: "A Discussion of Several Conceptions of the Utilization of Foreign Funds"]

[Text] In the past few years, the utilization of foreign funds has not only made up the shortage of domestic funds to a certain degree and strengthened the weak links in our national economy but also brought in new technology, new equipment and managerial experience. The results of direct investment adopted by a number of joint ventures between China and foreign countries are even more prominent. Due to the import of advanced technology and managerial methods, we have substantially increased the output and improved the quality of our products, opened up export markets and increased foreign exchange earnings for the state. Some compensation trade projects have not only paid off the cost of equipment provided by foreign businessmen and begun earning foreign exchange for the state but also expedited the technical renovations in other enterprises of the same line. The business of processing and assembling materials from foreign countries has increased the processing charges for the State, trained a number of skilled technicians and solved the employment problem in our society.

Over the past 4 years, our province has drawn upon over \$100 million foreign investment through the forms of loans, joint ventures between China and foreign countries, joint management and compensation trade. For example, we have loaned \$38 million from the First National Bank of Chicago and the First National Bank of Houston of the United States and \$22 million from the Kuwait Arabian Economic Development Foundation. With these loans, we have built an ocean shipping fleet which ended the situation in which our foreign trade permanently relied on renting foreign ships, opened a passenger flight between Xiamen and Hong Kong and undertaken the construction of the Xiamen airport. The building of this airport has not only created conditions for economic development in the Xiamen Special Economic Zone and in Fujian Province but also added a new passageway between our country and foreign countries.

Over the past 4 years, our province has also utilized foreign funds to import over 4,000 sets of equipment. Many meet international advanced standards and have played a dominant role in the technical renovations of

existing enterprises. For example, the high-frequency electric-welding automatic can-production line imported by the Zhangzhou can factory through compensation trade has enabled the factory to increase productivity by 2.5 times, improve product quality and enhance the competitiveness of their exports. The Furi (4395 2480) television set limited company is the first joint venture enterprise in the electronic industry of our country. During only over 1 year period since the investment of this company in June 1981, the work efficiency of this company has increased by 10 times compared with the original electronic equipment plant and the labor productivity of all employees of this company has reached 255,000 yuan, several times better than the average level of the electronic industry in our province. The quality of products of this company is up to international standards. More than 2,000 sets were exported to Panama, Hong Kong and Canada last year. It is estimated that the export volume will increase substantially this year.

However, many factors obstruct us in opening a new phase for the utilization of foreign funds, such as the problems of ideological understanding, the economic management system and complicated administrative formalities. Solving the problem of ideological understanding is a key. At present, there are several understandings requiring further clarification.

For instance, how do we understand "independence and self-reliance" and "he who has no debt feels as free as a bird?" "Self-reliance" is not the same as "closing the country to international intercourse." "No debt at home or abroad" does not mean that utilizing foreign funds is undesirable at any time or under any circumstances. "Doing everything by ourselves" does not conform to the law of the development of modern economy. Learning from others' strong points to offset our weaknesses is in line with the spirit of self-reliance, and pursuing the open-door policy and developing international economic cooperation to speed up our economic development also embodies the spirit of self-reliance. In modern world, production has not only been socialized but also surmounted national boundaries, become a world wide business and "become a question of life and death of all civilized nations." [The "Communist Manifesto"] Our province has formulated the principle of "being positive and prudent and advancing steadily" for external economic activities. Positivity and prudence are originally dialectical unity. But some people have overemphasized the prudence and become overcautious. We should pay attention to prudence and steadiness while being positive. If we are overcautious from the beginning, we will be unable to move forward. Utilizing foreign funds is always a little risky. As long as we use our brains to do a good job in feasibility study, we will be able to minimize the risk. Leading comrades of our province have said on many occasions that in utilizing foreign funds "we will take anything if both sides are benefited, we will take it if the other side is benefited and our side does not suffer and we will also take it if the other side is benefited and our side suffers a little, but it is worthwhile on our side in general." This shows our resolution, boldness of vision, positive attitude and enterprising spirit in utilizing foreign funds. However, some people are always afraid that foreigners will take advantage of them in every way. If you do not give foreign joint investors the benefit of "above average profit rate" or if your rate is even lower than the interest rate of international savings

deposits, why would capitalists come to you? Therefore, benefits which ought to be given must be given to them.

For another instance, how do we understand "protecting national industries?" Protecting our national industries is right and proper and we must never forget to develop the national industries of our country at any time. The question is how. This is worth discussing. That consumer goods should not be blindly imported is correct. Adopting closed-door policy in all production and technical issues is harmful to the development of national industries. For example, the Furi company is a window through which we can learn Japanese advanced electronic technology. Through this enterprise, 112 enterprises inside and outside our province have reached technical agreements and conducted technical exchanges and quality feedbacks. Last year over 54,600 spare parts of 2,400 kinds were supplied by 56 plants and factories. This has not only accelerated the development of other enterprises in the same industry but also increased the percentage of home-made spare parts of "Furi" brand television sets. Spare parts produced by some plant began entering international markets last year. Why is this not good for the development of national industries? The aim of protection is not preventing foreign advanced stuff from coming in. Our ultimate aim is entering international markets. If we indiscriminately "protect" everything, would we not protect backwardness?

In importing technology, there are also different views on paying for the secret of technology. In current international trade, there are two kinds--lump sum payments and annual installment plans. Judging from the practical point of view, the latter has more advantages because sellers must bear responsibility for the technology they have sold and continue to supply both visible technology including technical data and drawings and invisible technology including experience and understanding to keep their products at the advanced world level. This is what lump sum payment cannot offer. Therefore, we must unify our understanding, make big strides and create a new phase in utilizing foreign funds.

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FOREIGN TRADE

SOME VIEWS ON SOLVING CURRENT FOREIGN TRADE LOSSES

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Sciences: "Views on Solving the Problem of Current Foreign Trade Losses"]

[Text] During the 29 years since 1953, our country's foreign trade has realized profits for 19 years and incurred losses for 10. Since 1981 our country has used the foreign exchange rate to settle domestic accounts, and has stipulated that one dollar equals 2.8 RMB. Thus, generally speaking, exports have changed from losses to profits and imports from profits to losses. How to correctly understand and solve foreign trade losses is an important problem of fairly great interest in all aspects of current developments in foreign economic relations and trade.

1. How to Understand Foreign Trade Losses

Theoretically speaking, exchange prices of goods in the international market are measured by "average units of world labor." But, in reality, the formation of prices is greatly influenced by market supply and demand and politico-economic situation, as well as by the economic policies (including foreign exchange policies) of foreign governments. This complex situation causes the prices of goods in the international market to be sometimes high and sometimes low and to be turbulent and indefinite. But China, as a socialist country, conscientiously applies the law of value and practices a basically stable policy on domestic market prices. Thus differences arise between international market prices and selling or procurement prices on domestic markets, and losses inevitably occur.

Prior to 1980, our country's major foreign trade losses occurred in export trade. Since using foreign exchange rate to settle domestic accounts, exports have changed from losses to profits. Thus, judging by appearances, it can be considered that the problem of export losses has been generally solved. The current so-called foreign trade losses are in reality created by differences between prices of import goods and prices assigned domestically to maintain domestic price stability. In 1981, 96 percent of total losses

in import goods in our country were in grain, raw sugar, cotton, chemical fertilizer and steel products, and the state price subsidies for imported grain, cotton and sugar reached 8.73 billion yuan, or 27.28 percent of total price subsidies. Judging by the level of development of our country's current productive forces, it is still necessary to import consumer goods such as grain, cotton, and sugar to satisfy domestic needs, and it is still necessary to maintain basic domestic price stability. Under these conditions, only through state financial subsidization can an import market trade deficit be regarded as a component part of the whole price subsidy. But since the method of using the foreign exchange rate to settle domestic accounts was adopted, certain problems have also emerged. For example, since raising the RMB conversion rate of export goods, former losses no longer exist and many have even made larger profits, thus encouraging such phenomena as blind lowering of prices and competitive marketing. For instance, Dalian, Tianjin and Hunan have competed to lower prices in our country's exports of electroceramics and the former annual price rate raise of 3 to 5 percent has now fallen 15 percent. In 1981 the volume of our country's export goods increased, but foreign exchange income did not increase correspondingly, illustrating that the effects of these problems are very serious. Thus, it seems that in changing the foreign exchange rate to solve foreign trade losses, the side effects are quite great and it is not a good method. But is it feasible to connect foreign and domestic prices of goods? Some countries such as Yugoslavia and Hungary have attempted it but results have not been very ideal. We must admit that the objective reality of the differences between international and domestic market prices should permit import and export losses to exist within a definite period of time. In order to thoroughly solve foreign trade losses, we still must deal with raising the level of our country's productive forces, change the import mix as well as the export mix, and improve and eliminate the existing exploited conditions in the price scissors of international goods exchange due to our country's relative backwardness in economic development. These are our directions to strive for over the long-term. But in the present stage our goals of struggle should be to strive to eliminate many elements of foreign trade losses which are man-made and unfair, to reduce them to a minimum, and to adopt suitable measures such as subsidies, credit and tax-exemption, to change the current situation of high foreign trade losses.

II. Several Problems Affecting Making Up Deficits and Increasing Surpluses in Foreign Trade

Our country's major foreign trade losses are created by differences in domestic and foreign prices, but this does not mean that our country's foreign trade work has been done well. On the very contrary, the effects of making up deficits and increasing surpluses can truly appear only if the economic effectiveness of foreign trade is continuously improved by enabling our country to sell export goods at a little better price and to buy import goods at a little lower price. In improving the economic effectiveness of foreign trade, the range involved is unusually extensive, including reform of the foreign trade system, improvement rules and regulations currently in force, and strengthening investigation of foreign trade

market conditions, as well as lowering the cost of export goods and improving communication and transportation conditions. With regard to those aspects directly affecting foreign trade losses, I only raise three problems:

1. Problems in respect to imports:

A. Domestic pricing of import goods is unfair. That differences occur in import prices and domestic assigned prices is the basic cause creating losses. In the last ten years international market prices of import goods such as grain, sugar and cotton have doubled, but there has been very little change in domestic assigned prices. Since adopting foreign exchange rate to settle domestic accounts, the problem has been more outstanding. The 4.1 billion yuan import profit of 1971 was able to make up for that year's export losses. But in 1981, the losses of importing consumer goods alone reached over 9 billion yuan. According to the 1971 price conversion, this netted a profit of 4.6 billion yuan. Although export profits were not small, they were insufficient to make up for the losses.

B. The burden of import losses is unfair. Current profits and losses of import and export goods are settled by the Ministry of Foreign economic relations and Trade, and the departments which order goods are not responsible for profits and losses. While the Ministry of Foreign Economic Relations and Trade acts like a "big boss," the utilization departments practice the system of "all eat from the same big pot." This causes a large volume of goods to be imported, even though they should not be. For example, sulfur made in China costs 500 yuan per ton; and although the imported cost is 490 yuan, imported sulfur is assigned a price of only 250 yuan. Since the Ministry of Foreign Economic Relations and Trade bears the burden of losses, all production units want to use imported sulfur. As a result, the marketing of China-made sulfur also must be solved through exports. It has even happened that the same ship in the Qingdao Harbor was exporting 2,000 tons of sulfur to Japan and also importing 2,040 tons.

2. Problems in respect to exports:

Although there is a profit in export goods, things such as proper control of prices of export goods are equally important in reducing the effect of foreign trade losses and import losses.

A. Prices of export goods are generally too low. Since the export mix of our country is relatively backward, exporting primary products was most important in the past, and we had to lower prices to force our way into the international market. In addition, the quality of our country's export goods was not stable enough and delivery was often late, so that we lacked the competitive ability and were unable to sell at a good price. Before long Chinese goods were world-famous as cheap goods.

B. There is blind competitive marketing. In recent years, along with the progressive reform of the foreign trade system, inland cities and provinces can manage their own exports too. For a time, however, a lack of unified

management resulted in each being absorbed in their own departments and working for their own interests, the abnormal phenomena of mutual competition, and the profits going to foreigners. These created very heavy losses for the state. Since all cities and provinces have managed their own exports, the majority have created a situation of the supply exceeding the demand with Hong Kong as the major target, causing prices to fall sharply. For example, the former export price per jin of the rare Chinese medicinal herb, eucommia bark, was 500 HK, but for a time fell disastrously to 200 HK.

Our country has the duty to guarantee supplies to our compatriots in the Hong Kong-Macao area. Thus, in trade with the Hong Kong-Macao area, it is necessary to give suitable consideration to both supply quantity and to export prices. This provision is beyond reproach. But current trade with the Hong Kong-Macao area constitutes more than a quarter of the volume of our country's foreign exports. If prices are not controlled properly, problems may also arise. Hong Kong has always been a famous transit market in international trade. Since our country's goods pour out in large conditions, supply has exceeded demand and created low prices. Under the conditions of low prices and prompt delivery, Hong Kong business turns toward transit markets of other areas, so that it happens that prices of some goods are 30 percent cheaper than our direct exports. This has become the subject of much discussion among the overseas import traders, which affects China's prestige in foreign trade. Some Hong Kong and Macao businessmen take advantage of loopholes in our prices, speculate in our country, rake in illegal profits, and create undue losses for the state.

C. Procurement prices of export goods are unfair. Due to the need to fulfill the export quota, fairness of procurement prices is often neglected. Prior to 1980, particularly, the procurement prices of export goods allowed for 70 percent losses, creating an unfair burden in the procurement prices of export goods. For instance, the amount of wages and expenses in cost accounting were 300 percent higher in the export-oriented dried meat floss produced in Shanghai than in that produced in Taicang of Jiangsu Province. The material cost was basically the same, but the procurement price of the two differed nearly 100 percent. This reflects that production costs of the factories are not realistic. By doing everything possible to shift the costs to export goods, it is still the state which finally loses.

3. Problems in respect to management and administration

Although there has been much improvement in management and administration of foreign trade in our country in recent years, judging from the Party Central Committee's proposal of the need to use two kinds of resources, to open up two markets, and the need to learn two skills, the disparities are still very great. Untimely information results in slow actions. It has often happened that even though changes occur in the supply-demand situation in the international market, transportation expenses rise and prices increase, our country still sells at the old price. Today, since deliveries are late, the quality of products unstable, the variety of colors and designs not new and original, decoration not tasteful, and packages not secure, it is very easy to incur

considerable losses. The various shortcomings of poor management and administration will finally have an effect on prices, and cause foreign trade losses to increase.

III. Some Views on Solving Current Foreign Trade Losses

To strive to develop foreign economic relations and to continue to expand the import-export trade are the requirements for the "four modernizations" construction. But if the currently existing huge sums of foreign trade losses are not reversed, they will inevitably become a stumbling block to the development of China's foreign economic relations and trade. In the aforementioned causes, the following tentative views are proposed:

1. Improve import subsidy methods and clarify economic responsibility

At present, the foreign trade departments take the sole responsibility for import losses incurred in foreign trade by adopting a reversed account checking method. This subsidy method of "all eat from the same big pot" is not beneficial in making up deficits and increasing profits. Although the finance departments have issued definite control figures, since the utilization and management departments do not have direct economic responsibility, they still cannot achieve very good solutions. This situation must change. Whether it is possible to adopt a fixed quota subsidy contracting method to strengthen the sense of economic responsibility of the parties concerned. In coordination with the relevant purchasing units, the Ministry of Finance and the Ministry of Foreign Economic Relations and Trade can be jointly responsible for drawing up financial subsidy plans and clarify specific requirements. The parties concerned must assume definite economic responsibilities. According to these plans, financial fixed quota subsidies can be provided to the essential import goods, and the amount of subsidies can be increased or decreased on the basis of [actual] conditions. For those goods our industries have sufficient production capacity to meet the demand, subsidies must be resolutely denied. Subsidies of all goods cannot be mutually substituted for. Special funds should be earmarked for special purposes. Export goods losses can also be controlled in the same way. Losses which exceed the subsidy fixed quotas must be penalized, and those below be rewarded to arouse the enthusiasm of the parties concerned.

2. Adopt correct policies and develop the effect of finance and taxes

Developing foreign trade requires not only correctly implementing all of the Central Committee's correct general and specific policies, but also making joint efforts by the concerned departments. We have still not done enough work in the aspects of developing finance and taxes for rewarding exports and limiting imports. In the past, the capitalist countries quite early used taxes, especially customs duties, to influence foreign trade. Even now, it is still considered a common and effective method. If our country's goods cannot enjoy a general or a preferential tariff special treatment from some countries, there will be no way to expand exports to these countries. Therefore, tariffs have an important effect in protecting trade. In carrying out state-controlled management in the foreign trade system, it was once

believed that foreign trade could be managed only through state-operated foreign trade corporations. The effects of such economic levers as finance and tax revenues in promoting and regulating foreign trade were neglected. Import-export tariffs have changed very little in the past several decades. Due to industrial and commercial taxes and industrial profits being excessively high, some export goods have incurred losses in foreign trade, but have not been granted reductions. This has influenced the competitive ability of these export goods. To sum up, some export tariffs should have been collected and were not collected, some should have been exempted and were not exempted; and a comprehensive set of measures have been lacking. If a set of perfected finance and tax (including tariffs) policies are not formulated, not only will it be impossible to promote the making up of deficits and increasing of surpluses in foreign trade, but passive obstacles to our country's development of foreign economic relations and trade will be met.

A. Firmly resolve to collect what should be collected. Tariffs are a country's major revenue and are also a major component of a country's foreign economic and trade policy. What import duties should our country collect, what export duties, and how much should the tariff rate be? How can they be adjusted in time? These aspects are related to many problems which should be solved one by one. The State Council has approved that beginning 1 June, the customhouse will collect export tariffs on 34 kinds of export goods, and this decision is absolutely timely and indispensable. It can limit blind domestic production and blind competitive foreign marketing, and it can also have a positive preventive effect on profits going to foreigners.

B. Firmly resolve to exempt what should be exempted. Due to production being backward, costs of our country's current exported industrial products indeed are not lower than a similar class of foreign products. If they are not assisted by the measure of tax-exemption, it will be unfavorable towards expanding the export of industrial products. Some of the tax burden of our country's existing commercial and industrial tax rate is not in accord with current conditions of economic development. For example when formulating the tax rate for wrist watches, we only consider the domestic rather than foreign market. As a result, the tax rate is relatively high, which greatly increases the costs in international competition and causes watch exports to occupy an unfavorable position.

C. There is a lack of clear rules on export goods tax collection. For instance during the initial post-liberation period when privately operated import-export businesses existed, for a time our country practiced export tax refunds. But now comprehensive tax system reform work still has not been launched, the tax rate on foreign and domestic marketed goods is still the same. With regard to this matter, there are still different views on practicing tax-exemption and tax refunds. The longer this problem drags on, the more unfavorable it will be in making up deficits and increasing surpluses in foreign trade.

3. Develop the effect of export credit and strengthen the foreign competitive ability

There have been great changes in our country's export mix in the past 30 years, the proportion of primary products decreasing and the proportion of industrial manufactured goods increasing. Henceforth, the volume of exports of electro-machinery instruments and heavy chemicals will increase day by day. Capitalist countries use the three great measures of subsidies, tax-exemption and credit to support exports, and the most common of these is the use of credit. This is even more the case in exports of relatively expensive equipment and machinery. All of the imports in capitalist countries buy heavy equipment without sufficient foreign exchange being ready in advance. If the exporting countries do not provide credit, it will certainly impel the buyer to search for other sources of credit. Our country's export of ships has achieved great results in the past few years. However, since we do not provide credit, the competitive ability of our country's ships on the international market is still adversely affected, even though our export prices are 20 to 30 percent lower than other countries. In reality, our low priced export sales are tantamount to paying interest on behalf of the buyer. The buyer's burden of paying interest is compensated for by [our] import prices. Even so, this measure is still not often welcomed. If this problem is not solved timely, it will not only cause export losses to increase, but also cause the competitiveness of these exports to occupy an unfavorable position.

4. Control prices of import and export goods to reduce losses and increase profits

Conscientiously controlling the prices of import and export goods is the key to improving the economic effectiveness of foreign trade. This can not only decrease RMB losses, but also increase foreign exchange earnings and save on foreign exchange expenditures. For example, calculated on the basis of the total value of our country's 1981 imports and exports, for every one percent increase in export prices or one percent decrease in import prices, the whole country could reduce losses or increase profits by 600 million yuan. This is a major problem which should be studied. Three views are advanced here for your reference:

A. Our country's foreign trade must be guided by the state plan. Regarding such aspects as import-export volume, value and variety, the state plan must be strictly carried out. However, we should be flexible about time, place and price so as to achieve goals beneficial to us. Whether the import and export prices are properly controlled also depends on whether information is timely. These aspects of work must also be improved.

B. The relation between our country's exporting of raw materials and of finished products. The Central Committee had long ago clearly indicated the need to export more finished products so as to achieve greater economic effectiveness, but at this late hour this problem is still not solved. Especially since some raw materials are controlled by the foreign trade departments. The export of manufactured goods is often affected by lack of

raw materials. In the spirit of the Central Committee's instructions, we should stop the arrangement of goods solely through the leading foreign trade departments. In principle, we should mainly rely on exporting finished products. When the economic effectiveness of exporting finished products is lower than that of exporting primary products owing to the backwardness of production, [proper] measures should be taken to support production so as to avoid causing the state to suffer losses due to wrangling.

C. There are contradictions between true losses and false one. Our country's foreign trade losses are calculated according to the management costs of the foreign trade corporations at the grass-roots level. Thus, losses appear in some goods due to excessively high taxes. Although they appear as losses they actually are profits. On the other hand, profits appear in some goods due to state subsidies for raw materials prices. Although they appear as profits actually they are losses. Both the industrial and foreign trade departments often argue about this ceaselessly. Calculation methods for export losses should be formulated to eliminate the false and retain the true, so that false losses do not affect exports and that true losses limit them.

5. Fully arouse the enthusiasm of production departments

Export goods are supplied by the numerous production departments, and it will be possible to continuously reduce the costs of export products only if the enthusiasm of production departments is fully aroused. It is necessary to oppose both the extravagant ways of the foreign trade departments for their incorrect calculation of profits and losses, and also the selfish departmental viewpoint that it is necessary to increase prices in order to export.

To sum up, although huge losses currently exist in our foreign trade, our existing potential is great. We believe that we can comprehensively and correctly carry out the general and specific foreign trade policies formulated by the Central Committee along with the reform of the foreign trade system and strengthen of ideological and political education; if we can develop the effect of the economic leverages of finance, taxation and credit, and if the departments concerned can achieve full cooperation and concerted action, take practical and feasible improvement measures in the light of the current existing problems, and strive to improve economic effectiveness, it will be entirely possible to progressively reverse the situation of losses.

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